Israeli election
A big step on the road to peace
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How it will change futures trading
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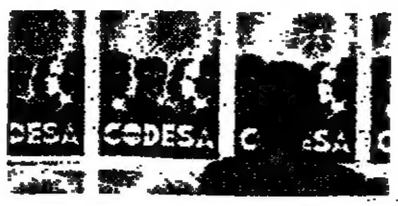

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FINANCIAL TIMES

Thursday June 25 1992 | EUROPE'S BUSINESS NEWSPAPER | D8523A

ANC rejects move by de Klerk to restart talks

South Africa's political crisis deepened last night as the African National Congress rejected President F.W. de Klerk's call for a two-day meeting to break the impasse in the peace process.

In a statement issued after Mr de Klerk's attempt to defuse tensions arising from last Wednesday's Boipatong massacre, the ANC said the proposed meeting would "serve no useful purpose". Page 14; A step back from the brink, Page 12

Daimler-Benz, German engineering, aerospace and electronics group, is likely to see turnover reach the "magic DM100bn ($63bn) mark" this year, against DM95bn last year, according to the company's chief executive. Page 15

Shevardnadze survives coup: Eduard Shevardnadze, the Georgian leader, survived a coup attempt in Tbilisi hours before he signed an agreement with Russian president Boris Yeltsin to end fighting in the breakaway region of South Ossetia. Page 2

Olympia & York hopes to raise at least $100m by selling a minority shareholding in its main US property subsidiary to one or more investors. Page 15

Italian premier urges radical reform

Italy's prime minister designate, Professor Giuliano Amato (left), unveiled sweeping plans to tackle the public sector deficit. He plans cuts in welfare spending and a tighter rein on the state payroll, as well as greater accountability for local authorities. Page 2

HK split over reform: Hong Kong's legislature split over the pace of democratisation, ending the pact which was pushing for more popularly elected seats. Page 5

Wellcome Trust, UK medical charity, is expected to sell 320m-330m shares in Wellcome, reducing its stake in the drugs group to about 35 per cent, in the global offering scheduled for next month. Page 15

France recorded a FFr4.5bn ($840m) trade surplus in May, bringing the surplus over the previous 12 months to FFr9.4bn, the best result for 20 years. Page 2

Dirty tricks accusation: Ross Perot accused George Bush of orchestrating a "Republican dirty tricks committee" to discredit his presidential campaign. Page 6; Bush applies the heat, Page 14

Mulroney recalls parliament: Canada's prime minister Brian Mulroney is to recall parliament on July 15, during its summer break, to resolve the constitutional impasse over Quebec.

Sarajevo shelling: Serb anti-aircraft gunners blasted a hospital bus in Sarajevo, killing a doctor, but fighting subsided as rival militias considered new UN ceasefire proposals. Hard times ahead, Page 2

Eurofighter: The UK's defence procurement minister described as "folly" proposals by Germany's defence minister to scrap the European Fighter Aircraft. Page 7

Peacekeepers attacked: A UN helicopter was hit by ground fire in Cambodia, fuelling speculation that the Khmer Rouge was offering rewards for attacks on UN peacekeepers.

Lloyd's of London came under sustained criticism from the Names whose assets provide the market's capital base at its annual general meeting, when yearly losses of £2.06bn ($3.8bn) were announced. Page 7; Lex, Page 14

Japan's federation of employers severely criticised US trade and economic policy, warning of the danger of US protectionism. Page 5

Shearson Lehman Brothers, Wall Street broking house, paid a $500,000 fine to the New York Stock Exchange in connection with an alleged case of stock manipulation in 1990. Page 19

Argentina reached an agreement with its leading bank creditors to restructure the country's $23bn medium-term debt under the Brady plan. Page 6

Royal Dutch-Shell, Anglo-Dutch oil group, plans to build a joint venture oil refinery costing at least $3bn in China's southern province of Guangdong. Page 3

Pirelli, lossmaking Italian tyres and cables concern, agreed the first in a series of disposals aimed at lowering debts and speeding a return to profitability. Page 16

STOCK MARKET INDICES

FT-SE 100:	2,532.8	(-28.0)
Yield	4.84	
FT-SE Eurotrack 100	1,145.09	(-3.40)
FT-A All-Share	1,224.88	(-0.9%)
FT-A World Index	137.68	(-0.8%)
Nikkei	15,853.67	(-253.32)
New York:		
Dow Jones Ind Ave	3,299.7	(+5.08)
S&P Composite	403.84	(-0.12)

US CLOSING RATES

Federal Funds:	N/A	(3½%)
3-mo Treas Bills: Yld	N/A	(3.745%)
Long Bond	101⅞	(101¾)
Yield	7.83%	(7.84%)

LONDON MONEY

3-mo Interbank	10 1/16 %	(10⅛%)
Liffe long gilt future:	Sep 97½	(Sep 97¼)

NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$21.025	(21.25)

Gold

New York Comex (June)	$342.8	(344.5)
London	$342.65	(344.65)

STERLING

New York:		
$	1.8785	(1.8625)
London:		
$	1.878	(1.8635)
DM	2.915	(2.9175)
FFr	9.8125	(9.82)
SFr	2.6875	(2.64)
Y	237.75	(237.0)
£ Index	93.1	(93.0)

DOLLAR

New York:		
DM	1.54995	(1.56625)
FFr	5.217	(5.272)
SFr	1.4091	(1.4172)
Y	126.35	(127.285)
London:		
DM	1.552	(1.5655)
FFr	5.225	(5.27)
SFr	1.4845	(1.4165)
Y	126.85	(127.2)
$ Index	61.8	(62.2)
Tokyo close Y 127.83		

Austria	Sch30	Hungary	Ft192	Malta	Lm0.60	S.Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr190	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr12.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	Fm16	Korea	Won 2500	Philippines	Peso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 19,000	UAE	Dh9.00
Germany	DM2.20	Lebanon	US$1.25	Portugal	Es190		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

Rabin calls for pro-peace parties to join coalition

By Hugh Carnegy in Jerusalem and George Graham in Washington

MR YITZHAK Rabin, Israel's prime minister-elect, yesterday capitalised on the Labour party's triumphant return to power in the country's election on Tuesday by calling for coalition partners who share his commitment to Middle East peace talks.

The US yesterday pushed for a speedy resumption of the peace talks, while most Arab and Palestinian leaders welcomed Mr Rabin's victory.

However, Jewish settlers, still building in occupied Arab lands, vowed yesterday to block Mr Rabin's plans for Palestinian autonomy within nine months.

"We are against autonomy in the strongest of terms. It is a precursor to a Palestinian state," said settler spokesman Bob Lang. "We will fight by every democratic means possible that it should never happen."

Labour's win over Mr Yitzhak Shamir's Likud party left Mr Rabin, premier in the mid-1970s, in a commanding position with 45 seats against Likud's 32.

With the support of Labour's traditional small party allies in the Knesset (parliament) he found himself in the unexpected position of leading a majority government without having to forge costly deals.

Mr James Baker, the US secretary of state, said he hoped the next round of bilateral peace talks would take place "just as soon as it is conveniently possible in the aftermath of the formation of a new government".

The last round ended in Washington in April. Although the Arab and Israeli participants have since agreed to hold the next round in Rome, no date has yet been fixed.

The Likud was consigned to opposition for the first time since 1977, unless it was prepared to join Mr Rabin as a junior partner on Labour's terms. The Labour leader has often favoured an alliance with Likud, but the losing party showed no sign of accepting the humiliating deal.

Likud ministers and officials went to ground yesterday, offering almost no comment to the media on the election. Earlier, Mr Shamir hinted that he might soon retire, saying he was near the end of his "personal road".

Egypt said the result could give a "strong push to peace efforts and the reaping of a golden opportunity to achieve historic reconciliation between Israel and the Arabs".

Mr Yassir Arafat, the chairman of the Palestinian Liberation Organisation, said Israelis had voted "against war and the terrorism of Shamir". Mrs Hanan Ashrawi, spokeswoman for the Palestinian negotiating team, said she hoped Mr Rabin would move quickly to reach an interim settlement allowing Palestinian autonomy in the occupied West Bank and Gaza Strip.

Mr Rabin did move quickly to revive an issue which earlier this year caused an unprecedented rift between Israel and the US. He said he hoped his willingness to curb Jewish settlements in the occupied territories would prompt the US to release $10bn in loan guarantees Israel wants to help it finance the absorption of ex-Soviet immigrants.

However, Mr Rabin said he was not prepared to freeze all settlements, the price Washington had demanded for the loan aid.

Mr Baker said it was better "not to speculate or engage in questions like [the loan guarantees]" until a new Israeli government had actually been formed.

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- Rabin will be no pushover for peace process
- Arabs see chance for new era
- Washington looks to less frosty relationship

Editorial Comment ... Page 12

Yitzhak Rabin makes his victory speech: no need to forge any costly coalition deals

Delors promises greater EC decentralisation

By David Buchan in Brussels

MR JACQUES DELORS, the European Commission president, yesterday struck a conciliatory tone ahead of the Lisbon summit which begins tomorrow by promising a more decentralised European Community. He also promised to scale down EC finance plans and predicted the Community's early enlargement.

In uncharacteristic vein, he publicly apologised for the "mistake" he recently made in warning Denmark, on French television, that it might lose EC farm subsidies if it failed to ratify the Maastricht treaty.

He claimed he said this because he had been "so traumatised" by the fuss French farmers have made about EC agricultural reforms. "Henceforth", he told a pre-summit press conference, "I will say nothing about Denmark and its future".

Addressing the Lisbon summit's three big themes – EC financing, enlargement and subsidiarity (making decisions at the lowest appropriate level of government) – Mr Delors predicted the meeting would set "concrete guidelines" for a financing settlement by the end of the year.

He conceded the Commission had been "over-confident" in asking governments to raise EC spending by one-third by 1997, when slow growth had tightened constraints on their own budgets. He backed a compromise to stretch revenue increases until 1999, but warned northern states they must fulfil political commitments to give the south more aid.

The Lisbon summit, Mr Delors forecast, would agree that entry negotiations with European Free Trade Association states could start once the EC reached budgetary agreement and ratified Maastricht. Other applicants and potential applicants in east Europe would have to wait.

By contrast, in his pre-summit letter to fellow leaders, Mr Anibal Cavaco Silva, the Portuguese prime minister, who will host the Friday-Saturday meeting, saw a budget settlement as the EC's only precondition for opening enlargement talks.

UK officials yesterday stressed their belief that Maastricht ratification need not be wrapped up before talks with the Efta countries begin.

Danish rejection of Maastricht has aggravated tactical divisions over enlargement, as well as spurring a growing debate over subsidiarity. Mr Delors widened this debate yesterday by suggesting that, even in natural areas of transnational legislation like the environment, responsibility for ensuring compliance with EC rules could be handed to individual governments. Asked whether uneven compliance might compromise the EC's vaunted single market, he replied: "The best [the single market] can be the enemy of the good [subsidiarity]".

Maastricht poll; Bull subsidies allowed, Page 2
Working hours, Page 14

Vaccines grown in leaves of plants

By Clive Cookson in London

BIOTECHNOLOGISTS in the UK and US have found a way to produce animal and human vaccines in plants. The first experimental vaccines, against foot-and-mouth disease and Aids, are growing in a British greenhouse. The vaccines come from leaves of the cowpea plant, whose normal crop is the black-eyed pea.

The invention will be announced at a scientific meeting at the Royal Society in London next week. It opens the way to manufacturing vaccines for a wide range of diseases more cheaply than is possible with today's systems, which use live animals or cell cultures.

Plant-grown vaccines are also likely to be more stable, with a longer shelf life than those available today. They could be stored for years without refrigeration – an immense potential advantage in developing countries.

Agricultural Genetics Company (AGC) of Cambridge has developed the plant vaccine system in collaboration with researchers led by Prof Jack Johnson of Purdue University in Indiana and Dr George Lomonossoff of the John Innes Centre in Norwich, England.

The first vaccine, for foot-and-mouth disease, is already giving promising results on guinea pigs at Britain's Institute of Animal Health. Animal tests are now getting under way with a second plant-grown vaccine – against HIV.

The system is based on a plant virus, the cowpea mosaic virus (CPMV). The scientists discovered that its structure is particularly well suited to genetic engineering. They have hooked antibody-stimulating proteins from animal viruses on exposed "loops" on the surface of CPMV.

In animals, natural CPMV produces the strong immune response that is essential for successful vaccination. But, as a plant virus, CPMV cannot actually infect animals. This should make it safe for use in humans.

AGC's production system involves infecting cowpea seedlings with genetically activated CPMV and harvesting the plants after two weeks to extract viral particles, which are then formulated into a vaccine. Each cowpea leaf contains enough material to make 200 doses.

Dr Roger Gilmour, AGC chief executive, says the company will look for an established vaccine or pharmaceutical manufacturer with which to collaborate on commercialising the discovery.

He hopes to develop a range of vaccines, including hepatitis A and B and the rhinoviruses which cause the common cold. It should also be possible to produce "multivalent" vaccines that protect against several diseases with one shot.

US tobacco ruling gives go-ahead to some claims

By Nikki Tait in New York and Philip Rawstorne in London

THE US Supreme Court yesterday ruled that suits can be brought against tobacco companies under individual states' product liability laws, giving the green light for some personal injury claims.

Ambiguities in the judgment, however, allowed both the tobacco industry and the anti-smoking lobby to hail the court's 7-2 decision as a victory.

The ruling overturns the industry's claim that such suits should be barred because federal law requires that cigarette packets carry health warnings. Congress passed the cigarette labelling laws in 1965 and 1969.

The decision comes in the context of a long-running case brought by Mrs Rose Cipollone against three tobacco companies, after she had a cancerous lung removed in 1983.

The Supreme Court justices expressed a range of views over what type of claims could be brought under state liability laws. The majority concluded some of the claims brought in the Cipollone case – for example

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Commission warns on double taxation agreements

Brussels opts for modest, more consultative stance on corporation tax levels, writes Andrew Hill

EC governments yesterday were warned not to enter into double taxation agreements with countries outside the EC as some treaties could be potentially discriminatory.

Mrs Christiane Scrivener, the commissioner responsible for fiscal matters, confirmed that the European Commission was studying bilateral double taxation treaties to establish whether they disadvantaged companies based in other EC countries.

The most recent and important example of such a treaty is that between Germany and the US. But the Commission is unlikely to act precipitately against potentially discriminatory agreements. Instead, Mrs Scrivener yesterday outlined a softly-softly approach on corporate tax.

The Commission's modest proposals on corporate tax are likely to relieve EC governments – notoriously sensitive about tax matters – at the same time as they may disappoint tax hardliners.

They follow the report of an expert committee – chaired by Mr Onno Ruding, the former Dutch finance minister – submitted in March. The Ruding report called for radical harmonisation of EC corporate tax rates at between 30 and 40 per cent, and rapid action to eliminate differences in national corporate.

But Mrs Scrivener said many of the committee's suggestions went "beyond what is absolutely necessary in the Community in the initial phase." The Commission has rejected the idea of a maximum corporation tax rate, and believes that, although a minimum rate is "worth examining thoroughly," 30 per cent would be too high.

Mrs Scrivener's concerns are more practical than ideological. Tax matters have to receive unanimous approval of member-states, and, as the commissioner said yesterday: "I would like to avoid a situation where we make proposals which spend 17 years gathering dust."

That was roughly how long it took to motivate member states' discussions on earlier company tax proposals aimed at easing the fiscal situation for multinationals which have subsidiaries in several EC countries. The plans outlined yesterday are likely to be transformed into legislation by the end of the year and should nudge forward the process.

First, the Commission is keen to make sure existing plans are adopted and implemented. It is urging member states to ratify a 1990 convention on the double taxation of cross-border asset transfers. So far only two member states have approved it. Two more parent-subsidiary directives also need to be adopted.

Brussels is also suggesting specific action on some of the Ruding committee's recommendations, most of which it believes could be enacted through consultation and agreement, rather than legislation.

The main aim is the elimination of outstanding double taxation problems. Directives will be produced extending the parent-subsidiary directives to all companies. A consultation procedure will be set up to pre-empt tax disputes over cross-border asset transfers. The Commission would also like to start talks with EC governments on the treatment of dividends from "foreign" companies and dividends from domestic groups. Some member states tax foreign-source dividends more heavily.

Mrs Scrivener believes such measures would go some way towards eliminating tax disadvantages of cross borders collaboration, but with the Commission under fire for its alleged tendencies towards centralisation, she is reluctant to push member states too far.

Germans urge rethink of European union

By David Goodhart in London and Quentin Peel in Bonn

GERMANY'S employers and trade unions yesterday joined forces to urge the European Community leaders meeting in Lisbon this week to answer growing public doubts about the progress towards European union.

In a rare joint initiative, the two sides of German industry called for the member states to push through the ratification of the Maastricht treaty, but at the same time to face up to the "visible fears and reservations in the population at large".

They warned that the Danish rejection of the treaty reflected a wider backlash against "a centralised, bureaucratic Europe, remote from its inhabitants and lacking democratic legitimation".

They called for "further development" of the treaty to spell out the principle of subsidiarity – maximum devolution of power away from the centre. They also proposed a new inter-governmental conference to strengthen democratic control and make EC decision-making more open to public scrutiny.

The declaration coincided with a highly critical analysis of the EC agreement on economic and monetary union (Emu) delivered in London by Mr Heinrich Weiss, president of the BDI, Germany's industrial federation, and one of the signatories of the declaration. The others were the BDA, the employers' federation, and the DGB, the trade union federation.

Mr Weiss suggested that many German employers had lost faith in Emu, and would now prefer to postpone it until well into the next century.

Speaking at the Royal Society for the encouragement of Arts, Manufactures and Commerce, he said that Europe was not economically "mature" enough for monetary union. When it was finally introduced, it should be "the last stone, and not the first, in the edifice of integration".

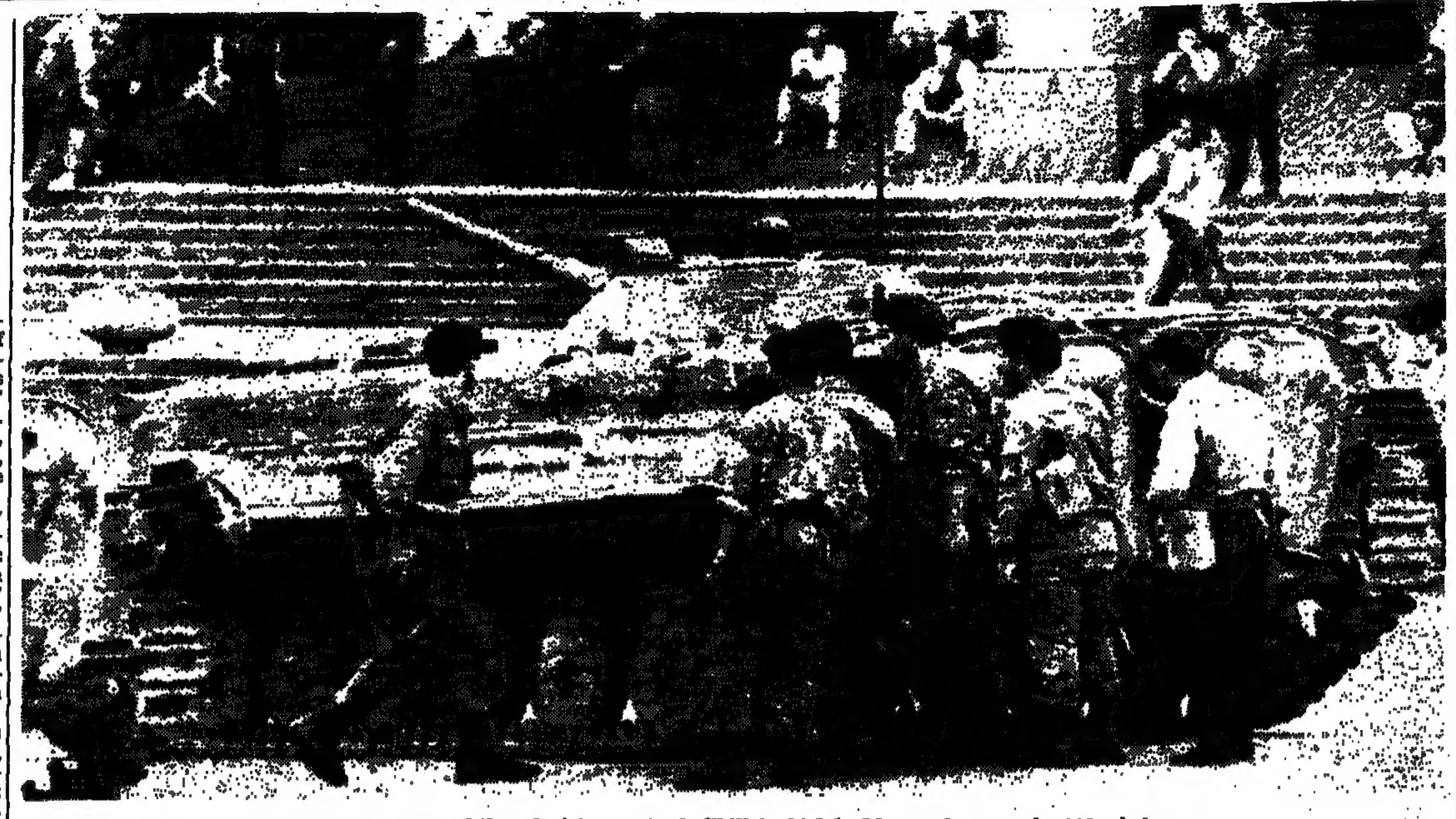
The BDI has traditionally been one of the most enthusiastic supporters of economic and monetary integration among Europe's employers' organisations, and Mr Weiss' open hostility to speedy economic union will be taken as a further sign of a general cooling in public enthusiasm towards Emu in Germany.

"The speed of integration has been too fast," Mr Weiss said, adding in an apparent side-swipe at Chancellor Helmut Kohl: "There are too many politicians who want to go into the history books as architects of the new Europe."

In the latest German opinion poll on the subject, carried out by the Allensbach Institute, some 82 per cent of ordinary citizens said they did not believe the European currency would be as stable as the D-Mark. Among civic and business leaders, that proportion was higher, at 69 per cent.

The poll also showed a rise in those fearing a loss of identity in Europe, and dwindling support for the transfer of full-scale legislative powers to the European parliament.

Chancellor Kohl will be arguing strongly in Lisbon for some sort of clarification or declaration on the principle of subsidiarity, which should also help him satisfy the doubts of the 16 federal states in Germany, anxious at what they see is an erosion of their local authority through European union.



Government soldiers backed by tanks surround the television centre in Tbilisi which had been taken over by 300 rebels

An armed pro-Gamsakhurdia rebel is dragged away by Georgian national guards after the television centre was recaptured yesterday

Shevardnadze defeats coup attempt in Georgia

By John Lloyd in Moscow, Dmitri Volkov in Tskhinvali and agencies

Mr Eduard Shevardnadze, the Georgian leader, survived a coup attempt in Tbilisi yesterday after a battle in which loyal troops recaptured television studios held by armed rebels loyal to the deposed president, Mr Zviad Gamsakhurdia.

The Georgian president then flew to the Black Sea and initialled an agreement to stop the ethnic conflict in the breakaway region of South Ossetia.

In the Georgian capital national guardsmen backed by tanks and helicopters regained control of the TV building in an attack after a government ultimatum ordered the insurgents to surrender within two hours or face an assault. At least three were killed when guardsmen unleashed heavy barrages of automatic weapon and tank fire at the rebels without waiting for the government deadline.

Mr Patinary Adamishvili of the ruling State Council put the death toll from the assault at three, with 26 hurt, but earlier put the toll at 40.

The government said the leaders of the short-lived rebellion, including a top Gamsakhurdia lieutenant, had been placed under arrest. The rebels, put at 300, seized the TV tower in the early hours of yesterday morning and called for the return of Mr Gamsakhurdia, now in exile in the Russian republic of Chechenia.

After the coup attempt Mr Shevardnadze, flew to the Black Sea resort of Dagonmys and concluded an agreement with Russian president Boris Yeltsin aimed at ending the conflict in the breakaway autonomous republic of south Ossetia. Mr Shevadnadze said the coup had been partly aimed at preventing him holding the talks.

"We have signed an agreement on the principles of regulating the Georgian-Ossetian conflict, which includes everything, a ceasefire, mutual co-operation and so on," Mr Yeltsin said before signing the pact yesterday.

The Russian president was quoted in a pool report filed by western correspondents from the Russian Black Sea resort. Mr Yeltsin said the two sides would send buffer troops to separate the warring factions on the borders of South Ossetia, which is part of Georgia.

South Ossetians want to merge with their ethnic kin in Russia's North Ossetia. Leaders of South and North Ossetia took part in the meeting between the Russian and Georgian leaders.

"In principle we have agreed over the next month to prepare a large political treaty between Georgia and Russia," Mr Yeltsin said. The package of documents would propose measures to stop the conflict and end bloodshed, he said.

The republic has suffered from increasingly bitter fighting in recent months.

Brussels to allow FFr6.6bn subsidies to Bull

By Andrew Hill in Brussels

THE European Commission is set to approve FFr6.6bn (£670m) of French government subsidies aimed at returning Bull, the French computer manufacturer, to profitability.

Sir Leon Brittan, the EC's competition commissioner, will ask his fellow-commissioners next week to clear the state aid. His investigation, which began last July, found that the money would be used for genuine restructuring and not simply to prop up an ailing company.

If Sir Leon had proposed blocking the aid he would almost certainly have faced a fierce battle within the Commission, and a damaging row with the French authorities at a sensitive time for relations between Brussels and the member states.

The French government has already injected FFr2bn of fresh capital into Bull, but to its annoyance the Commission's inquiry has held up a second FFr2bn capital injection for nearly a year. Last month, Paris announced the loss-making group would proceed with the second equity increase even though the Commission had not approved it.

The Bull case has also prompted concern in the Commission about the alleged sluggishness of Brussels' general competition inquiries, relative to merger investigations, which are subject to a binding five-month deadline. Sir Leon and his officials are already looking for ways to speed up their work.

Apart from the capital injection, Sir Leon's recommendation on Bull covers a further FFr2.6bn of research funding and takes into account the FFr540m investment in Bull by IBM, the US computer manufacturer, formalised last month, and last year's investment by NEC, the Japanese electronics company. That left the two companies with 5.68 per cent and 4.7 per cent of Bull respectively.

Those agreements should help Bull realise its ambition of returning to operating profitability by the end of this year and net profits by the end of 1993. But Commission competition experts believe the combination of aid and investment will not give Bull an unfair edge over its EC competitors. The computer group's rivals are said to have raised few objections to the French government's plan, which will involve heavy job losses and the closure of several factories.

Survey shows fall in support for Maastricht

By Ian Davidson in Paris

POPULAR support for the Maastricht Treaty has weakened in France, according to an opinion survey which gives 54 per cent in favour and 44 per cent against. The previous survey conducted by the CSA polling organisation for Le Parisien newspaper in early June, gave 69 per cent in favour and only 31 per cent against.

However, there has been a wide variation in the findings of different polling organisations on the Maastricht issue, although, in every case, supporters outnumber opponents.

The abstention rate may account for the difference and could easily determine the result when the French vote in a referendum on the treaty, probably in September. Yesterday's poll points to an increase in the numbers who expect to stay at home, from 42 per cent in early June, to 50 per cent.

Hard times ahead for Serb democrats

By Judy Dempsey and Laura Silber in Belgrade

A FLEDGLING democratic movement is trying to establish itself in Serbia against overwhelmingly odds, in the form of an uncompromising domestic regime and international isolation.

Mr Dobrica Cosic, recently elected president of the reconstituted Yugoslavia (consisting of Serbia and Montenegro), is now engaged in extensive talks with opposition movements in Serbia, with the aim of eroding the powers of Mr Slobodan Milosevic, the Serbian president.

Although Mr Cosic was one of the architects of the plan for a greater Serbia promoted by Mr Milosevic, he now recognises that this plan has failed miserably.

Already, the Serbian president has lost control over sections of the army, which in theory is now directly under the control of Mr Cosic. In addition, he has lost the support of the influential Serbian Academy of Sciences, the Orthodox church, and the university.

Managers of major enterprises have denounced Mr Milosevic for his catastrophic economic policies, while the students, on strike now for 11 days, are demanding his resignation.

For his part, Mr Cosic, whose authority in Serbia is considerable, wants to create a broad platform of support to pave the way for free and democratic elections later this year.

"The question is whether Mr Cosic has the strength to carry out his plan...and prevent the country from sliding into civil war," said a senior European Community diplomat.

"We do not know how Milosevic will react. He is still capable of generating conflicts, for instance in Kosovo," the diplomat said. "Moreover, when the people reach a certain level of economic deprivation, they will take to the streets, and nobody will be able to control masses which will not be demanding democracy," he explained.

These efforts are also being hindered by fears that additional sanctions will be imposed. "The small democratic movement will be completely destroyed", he adds.

French watchdog warns on waste

By William Dawkins in Paris

FRANCE'S official accounting watchdog, the Cour des Comptes, yesterday warned that public financial waste could not be curbed unless the government took more notice of its recommendations.

The court could only be useful "on condition that its conclusions...are taken up actively by the government and parliament," said Mr Pierre Arpaillange, the watchdog's president, in its annual report on inefficiencies in France's huge public sector. This is the first time the court has openly complained over the frequency with which it is ignored.

Court officials estimate that less than a third of their suggestions lead to parliamentary action, well below the 95 per cent which their UK counterpart, the National Audit Office, says it achieves. "The government has proclaimed its desire to fight corruption, so it should take our reports into account," said Mr Arpaillange. If not, it should give reasons for rejecting them, he said.

Among the 28 examples of inefficiency in the report are inadequate financial control of international co-operation accords by state-owned defence equipment suppliers, which absorbed FFr7.4bn (£750m) of French taxpayers' money in 1990. There is no central register of the 160 accords the court has managed to track down, nor any system of measuring performance, it says.

The court also highlights alleged property frauds at the Institut de France state cultural academy; criticises marketing at Bull, the state-owned computer company; and highlights inefficiencies created by European farm subsidies.

The study highlights several examples of alleged dishonesty in public health spending, including a private clinic in the Nord-Pas-de-Calais which wrongly charged the government for FFr4.5m-worth of operations. That cash has been reclaimed.

Established in 1807, the court has wide investigative powers, but almost no policing authority. A committee of senior civil servants was set up in the 1970s to put pressure on ministers to act on the court's suggestions, but has not met for 10 years, say court officials.

The government last year set up an interministerial committee to discuss the court's findings. It is due to meet for the first time later this year.

Trade surplus to May best for 20 years

By William Dawkins

SUCCESS on industrial export markets helped France record a FFr4.5bn (£450m) trade surplus in May, bringing the surplus over the previous 12 months to FFr9.4bn, the best result for 20 years.

This is the fifth monthly surplus in a row and puts the trade account on track to break even or make a small surplus for the year, said Mr Dominique Strauss-Kahn, industry and foreign trade minister.

He attributed the turnround, from a FFr30bn deficit for the whole of last year, to the fact that low French inflation had made French industrial goods competitive on export markets.

France's export success was the main component in growth so far this year, as investment and consumer demand in the domestic economy continued to perform sluggishly, he said.

Last month's surplus is slightly smaller than the FFr7.57bn surplus recorded in April and reflects a fall in both exports and imports. Exports declined by 5.7 per cent to FFr103.4bn from April to May, while imports fell by 3.2 per cent to FFr98.9bn.

This bought the surplus for the first five months of the year to FFr17.9bn, representing a FFr37bn turnround from the FFr19.01bn deficit in the same period of last year. The industrial account represented the FFr30bn of this.

Amato: reforming zeal

Italian premier urges radical economic reform plan

By Robert Graham in Rome

ITALY'S prime minister-designate, Professor Giuliano Amato, yesterday unveiled sweeping plans to tackle the country's huge public sector deficit centring on cuts in welfare spending, a tighter rein on the state payroll and greater accountability and autonomy for local authorities.

The plans were contained in a 23-page discussion paper delivered to the 16 parties represented in Italy's new parliament. Restoring the country's public finances and bringing down inflation are the central elements in the paper which seeks to provide a tight framework for Italy to comply with the terms of the Maastricht treaty.

The 54 year-old deputy leader of the Socialist party, who was asked to form a new government last Thursday by President Oscar Luigi Scalfaro, has refrained from detailed proposals in order to obtain reactions from the principal parties likely to support him. However, he is anxious to implement essential measures as soon as possible.

The paper is an unusual example of strategic thinking and takes on board all the criticisms directed at Italy's faltering economic and political structure by its EC partners.

According to Prof Amato, the next government must address four essential issues: the public sector deficit; electoral reform; organised crime and a clean-up of morality in public life.

On the economy, the paper says urgent decisions are necessary to curb public spending, especially the generous pensions scheme, public health subsidies and civil service employment. It also singles out the need to reform taxes, limiting progressive taxation and ending some tax holidays while making collection more efficient. However, Prof Amato says short term measures like a mini-budget must be quickly accompanied by structural reform - reducing labour rigidities, creating more competition, and privatisation.

So far he only has the backing of the four-party Christian Democrat-led outgoing coalition. This gives him a 16-seat majority in the 630 seat chamber of deputies but is insufficient for such a radical plan.

Yesterday Mr Carlo Azeglio Ciampi, the governor of the Bank of Italy, reminded the politicians yet again that time was running out. Talking to the Italian bankers' association, he said the Bank had managed in the past two weeks to protect the lira but the wave of speculation against the currency had made quick action ever more pressing. Short-term interest rates have risen to almost 15 per cent and the lira has been trading close to its permitted floor with the D-Mark.

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Munich summit lends impetus to farm talks

By Quentin Peel and Andrew Fisher in Bonn, and David Dodwell in London

CHANCELLOR Helmut Kohl is in contact with both the US government and the European Commission in an urgent effort to break the deadlock in the Uruguay round of trade liberalisation talks, the German government spokesman said yesterday.

"He believes that all possible efforts must be made to reach a conclusion in the Uruguay round before the (Group of Seven economic) summit in Munich," Mr Dieter Vogel said: "He is not the only one making an effort, but he is perhaps a little more heavily involved than others."

Also in Bonn, Mr Joseph Connor, president of the International Chamber of Commerce, emerged from a pre-summit briefing with Mr Kohl claiming the German leader had responded positively to an urgent call for a breakthrough.

Mr Heinz Schimmelbusch, the main German board member at the ICC, said world industry would be sent a negative signal by failure to make significant progress at the Munich summit: "Business will conclude that we are entering a protectionist world. Every business will act as if that world already existed." The ICC delegation said its concerns had "hit a responsive chord".

The ICC told Mr Kohl that the credibility of the G7 leading industrial nations had been stretched to the limit by the Uruguay negotiations.

Referring to the "at best fragile condition" of the world economy, Mr Schimmelbusch, who also heads Metallgesellschaft, the German industrial group, said a collapse of the Uruguay round would further retard international growth.

In London, Mr Arthur Dunkel, director general of the General Agreement on Tariffs and Trade (Gatt), told world grain traders that the recent EC decision to reform the common agriculture policy (CAP) had enabled the Uruguay round "to gain greater focus".

Remaining doggedly optimistic about a positive outcome, he noted: "Courageous and wise political decisions are urgently needed." He warned that a settlement of the EC-US farm trade dispute was only a first step to completing the round.

Market access and services negotiations had been stalled by the farm trade dispute. Disagreements over "bananas, shipping and financial services" remain unresolved, he said.

In Bonn, Mr Vogel said that there had so far been no significant shift in EC positions on farm trade reform, but the German government was making "very serious efforts to find at least a political agreement before the summit".

He said that it was unlikely – and undesirable – that either this week's EC summit in Lisbon, or the Group of Seven summit in Munich, should be turned into detailed negotiations on agricultural trade: "There will not be any game of agricultural poker between the EC and the US in Munich," he said.

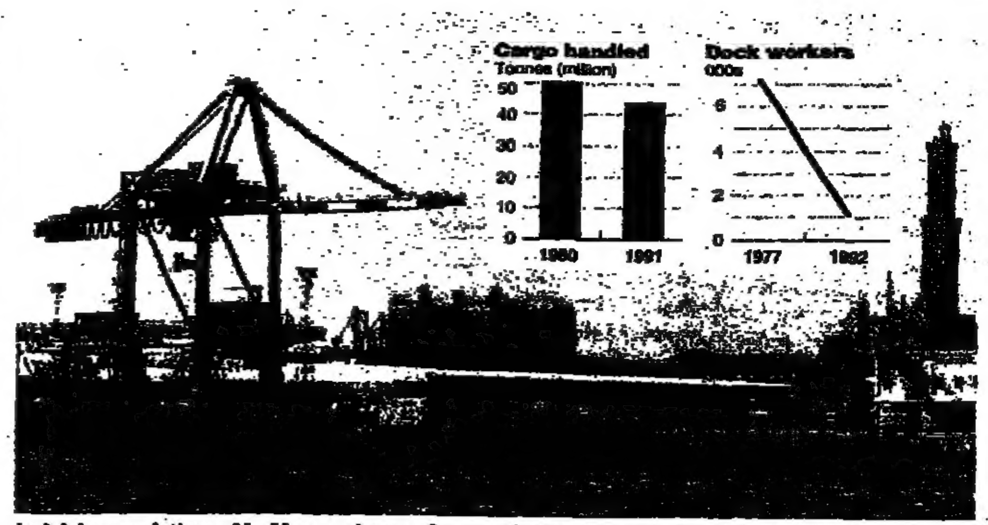
Instead, German and British negotiators hope to draft a compromise that can be accepted by France, and then presented to US negotiators perhaps in Washington next week.

Reflecting the particular problems that France has in agreeing a farm trade settlement, the French trade and industry minister, Mr Dominique Strauss-Kahn, yesterday expressed doubts that the Gatt negotiations can be resolved before US presidential elections in November.

Negotiators in the five-year Uruguay Round will continue to work on various, technical issues in the meantime, he said, during a presentation of French trade figures.

France has been rocked by two weeks of protests by farmers who claim cuts in farm prices will put them out of business.

Genoa fearful of any storm in the port



GENOA'S hopes of reclaiming its crown as one of Europe's leading maritime centres are in danger of being dampened by renewed labour unrest, a history of which has spoiled the reputation of Italy's biggest port.

Once a byword for seaborne trade, Genoa's importance as a port collapsed during the 1970s owing to abysmal labour relations, inefficiency and poor management. Crucial developments like containerisation were delayed, while constant strikes prompted shippers to look elsewhere for reliable services. Traffic shifted to smaller ports, such as La Spezia to the south, where lower costs and better services compensated for geographical disadvantages.

Haig Simonian examines prospects for regaining past maritime glories

Today Genoa is trying to make up for its past, pinning its expectations on a huge new facility at Voltri, six miles to the west.

When fully operational, Voltri will dwarf all the Mediterranean's other container ports. The 1m square metre site, opening next year, will be able to handle three of the world's biggest container ships simultaneously. Volume in the first year is expected to reach 100,000 containers, rising to 250,000 in 1995 and 500,000 by the end of the decade.

The project represents Genoa's ambition to regain its position in the Mediterranean, and even to challenge bigger, more established ports like Rotterdam and Hamburg for business between Europe and the Far East.

Voltri's case is based on geography. The new port is closer to many of Europe's main population centres than Mediterranean competitors or big north European rivals. Mr Rinaldo Magnani, the chairman of Genoa's port authority, notes that Genoa is nearer Vienna, Zurich and Munich than is Rotterdam, and is also 430km closer to Budapest, the door to the emerging markets of eastern Europe.

Offloading at Voltri rather than at Rotterdam could save up to two weeks sailing time for shippers from the Far East, port officials calculate. Depending on the type of vessel, this could make trips between $200,000 (£108,108) and $500,000 cheaper. Cargo can be discharged sooner, reaching customers faster due to Genoa's proximity to many central and southern European destinations.

Genoa's problem is to convince sceptics that Voltri represents a definitive break with the old port's reputation for politicisation, poor service and bad labour relations. Mr Magnani's trump card is Fiat, Italy's biggest private-sector company. Within its shift away from its core automotive business, the group is leading the development of Voltri through Sinport, a subsidiary of its Cogefar-Impresit building and civil engineering arm.

Sinport, which is investing L180bn (£81.33m) in the new port, has taken 95 per cent of the shares in Voltri Terminal Europa (VTE), the company awarded a 60-year concession to run the new facility. The port authority holds the remainder of the equity.

Fiat's role as shareholder and manager is being cited as proof that Voltri represents a change for the better. There are some signs of success. Mr Giovanni Leodari, the senior Fiat-Impresit executive who heads Sinport, draws attention to the opening of a new roll-on roll-off ferry terminal at Voltri at the end of June – about a year ahead of schedule. The ro-ro facility, to be used by the state-owned Finmare shipping group for a fast ferry service between the Italian mainland and Sicily, proves shippers' confidence, he says.

But Mr Leodari's main job is to persuade big international "round the world" shipping groups to berth at Voltri. Currently, the large container vessels plying the Far East to Europe route sail through the Suez canal but discharge at ports like Rotterdam rather than stopping in the Mediterranean.

"In the past, shippers weren't able to find the service they wanted," says Mr Leodari. "So they just by-passed the Mediterranean ports and sailed on." Today, the big ports of northern Europe account for 77 per cent of the European Community's seaborne trade, against 23 per cent for those in the Mediterranean.

The aim is to reach long-term agreements with a number of leading shippers. On paper, Voltri's case is strong – the harbour is both large and deep enough for the biggest container vessels and boasts 1,400m of linear quayside. The new facility offers an area the size of 140 football pitches for storing and trans-shipping containers.

A newly-opened spur means Voltri has direct access to Italy's motorway network. Rail connections have been improved so that containers heading north can reach the main lines to Milan and Turin without having to pass through Genoa.

Voltri is also aiming to create a broader package of services that could involve closer links with leading ports in the Far East. Mr Leodari would clearly like to emulate Singapore, where the volume of container traffic has grown by 20-25 per cent a year in the past five years.

This month's upsurge of labour trouble at Genoa's old port could hardly have come at a worse time. Dockers at one terminal last week refused to handle a cargo in protest at the gradual privatisation of facilities, being pushed through by Mr Magnani, himself an ex-docker. On Tuesday, dockers blocked a second attempt to restart operations. Port officials are playing down the conflict and stress it could not happen at Voltri, which will not be covered by the existing national dock labour scheme. But the incident provided an uncomfortable reminder of the sort of trouble that sent Genoa's reputation sinking in the first place.

Japan construction cartels hit

By Steven Butler in Tokyo

JAPAN'S Fair Trade Commission (FTC) has saddled 66 construction companies that have admitted to rigging bids with an enormous pile of paperwork in an effort to prevent them from forming cartels again.

The paperwork consists of obtaining individual signed pledges from all company employees – and there are more than 100,000 of them – that they will not take part in illegal activities. The boards of the 66 companies must also approve resolutions to refrain from violating the anti-monopoly law. The measure appears to be a mildly more severe slap on the wrist for the guilty companies, following a "cease and desist" order issued against the companies in May, after which they were forbidden to bid on selected government contracts for one month.

The action by the FTC is aimed at the practice by which Japanese companies rig bids among themselves in an effort to pass work in rotation among the companies. Although the government says the practice is rare, the US believes cartels are normal in the industry and it has objected.

There was disappointment in May when the FTC decided against prosecuting the 66 companies, which had admitted to routinely rigging bids. The FTC, however, argued that obtaining convictions under Japanese law would have proved impossible, since individuals rather than companies would have to be prosecuted. It is not entirely clear how obtaining pledges signed by everyone from the chairman of the board to a crane operator will prevent bid rigging.

Kajima, one of the bigger companies involved, says it will have to collect some 13,000 pledges, all validated with a personal seal. It says, however, that some companies have asked the FTC to reduce the number of signatures required.

Shell plans $3bn refinery for China

ROYAL Dutch-Shell plans to build a joint venture oil refinery costing at least $3bn (£1.6bn) in China's southern province of Guangdong, a company official said, Reuter reports from Hong Kong.

"It will be one of the biggest petrochemical refineries in China with an annual capacity of 5m tonnes of crude oil," said Mr Albert Wong, a spokesman for Shell in China and Hong Kong. No deal had yet been signed, but Mr John Jennings, the managing director, had toured the proposed site near the coastal town of Aoutou.

Asia-Pacific states agree to formalise trade links

FIFTEEN nations have agreed on the first steps to turn their Asia-Pacific Economic Co-operation (Apec) group into a permanent institution, writes Peter Ungphakorn in Bangkok.

At a three-day meeting that ended in Bangkok yesterday they agreed to set up a small secretariat, initially headed by an official seconded from one of the member governments.

"This really represents a new stage in Apec's development. Whereas before it was a dialogue organisation, now it will be an institution," said Mr Ted Delofski, head of the Australian delegation. Since its creation almost three years ago, Apec's main achievements have been to hold annual meetings of its trade and foreign ministers and to devise 10 programmes for co-operation in subjects ranging from fisheries to lowering trade barriers.

Some members, most notably Australia and New Zealand, barely disguise the fact that they see Apec as an insurance policy in case the world breaks up into warring trade blocs.

The 13 other members are: the US, Canada, Japan, South Korea, China, Taiwan, Hong Kong, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

Rabin will be no pushover for the peace process

Hugh Carnegy reports on the end of Likud domination

IT IS fanciful to think that a country can change character overnight, but to many Israelis yesterday it felt like that was exactly what had happened after Tuesday's general election.

In the space of a day, 15 years of government dominated by the uncompromising nationalist ideology of the Likud party were swept aside, *replaced by a resurgent Labour party* promising to make peace with Israel's Arab neighbours in a spirit of compromise and concession.

Words such as "revolution", "earthquake" and "historic" littered the comments of politicians, newspapers and ordinary people as they digested the election's implications. "Welcome to the new Israel," gushed an enthusiastic *Labour supporter in Jerusalem.*

The result was a defeat for the Likud that matched its own dramatic rise to power in 1977 under Mr Menachem Begin. He was the charismatic champion of "revisionist" Zionists who proclaimed Israel's biblical right *to all of Eretz Israel* – the "Land of Israel" including the Arab territories occupied in the 1967 Six Day War.

It was symbolic that Mr Begin, long out of office, died shortly after the election was called. *Under Prime Minister* Yitzhak Shamir, his cautious successor, the Likud's foundations were about to shake. Likud's election loss was due in part to the defection of thousands of the country's poorer Sephardim, or oriental Jews, whom *Mr Begin had made the bedrock of the* party's support.

They, like most of the 300,000 recent immigrants from the former Soviet Union, voted Labour in large part because of the dismal state of the economy. But they were also sufficiently *reassured by Mr Rabin's image* as a tough military man to support Labour's commitment to cede some of the occupied territories in exchange for peace.

In the end, the potency of Likud's stance on the West Bank and Gaza Strip and expanding Jewish settlements was blunted by the obstacle it clearly placed in the way of the US-brokered Middle East peace process, which has proved highly popular among Israelis weary of years of conflict.

But how much will things now change under Mr Rabin, himself a cautious pragmatist?

Ironically, he may find himself having to rein in "doves" in his own party and his allies in Meretz, the bloc of small left-wing and pro-peace parties which will be Labour's chief coalition partner. Both the Labour doves and Meretz espouse a much more radical commitment to giving up "land for peace" than Mr Rabin.

However, he should be able to move quickly to repair Israel's relationship with the US, bruised by a series of rows between the Bush administration and Mr Shamir's government. *Labour's policy on the peace negotiations* is much more in tune with Washington, which considers "land for peace" the essential basis of any settlement.

Mr Rabin also said yesterday he was hopeful that his commitment to stop government funding and subsidies for most of the Jewish settlements in the West Bank and Gaza would prompt Wash*ington to release $10bn (£5.4bn)* in loan guarantees which Israel badly wants to help finance immigration. President Bush withheld the guarantees because of Mr Shamir's absolute refusal to freeze the settlements.

In the peace talks, Mr Rabin has laid out *a position* which is *clearly* distinguished from Mr Shamir's government. Apart from his ultimate willingness to cede at least some territory in a final settlement, Mr Rabin is prepared to grant greater powers to the Palestinians in the interim stage *of autonomy for the occupied territo*ries than the "municipal autonomy" offered by Likud.

He says an autonomy accord, which he plans to reach within nine months *of taking* office, would include the withdrawal of Israeli troops from main Arab population centres and transfer of control of day-to-day administration to a Palestinian authority.

Mr Rabin says he would concentrate his efforts on reaching agreement with the Palestinians, before attempting a settlement with Syria. He says Israel should not "go down" from the Golan Heights, captured from Syria in 1967, for security reasons.

But Mr Rabin was at pains yesterday to stress that he would be no pushover. He said Israel would continue to exercise control over defence, security, foreign affairs and the Jewish settlements during the autonomy stage.

His stance on settlements is a long way from what the Palestinians are demanding. He is committed to expanding Jewish settlements in Arab East Jerusalem, the immediate West *Bank hinterland, border areas such as* the Jordan Valley, and the Golan Heights. His objection to settlements is confined to those in the West Bank and Gaza heartlands which he labels "political" or *ideological*, settlements.

Labour has been careful not to spell out exactly how much territory it would be willing to give up. The only policy guide it has ever published on the subject was a plan drawn up in 1970 by the late Yigal Allon, then deputy *prime minister*. The Allon plan envisaged annexing to Israel large chunks of the West Bank and Gaza and ceding the rest to Jordan.

The plan is now considered outdated, partly because the growth of Jewish settlements has complicated the *picture. But Labour officials* suggest they would be willing to cede more than was then envisaged. The plan's underlying emphasis on keeping what is considered vital for Israel's security remains valid.

As big a task for Mr Rabin as the *peace process* is regenerating the domestic economy. Here the consensus among economists is the need for radical reforms, such as industrial privatisation and liberalisation of the capital and *labour* markets, to help generate growth urgently needed to alleviate unemployment running at 11.5 per cent and about 40 per cent among immigrants.

Mr Rabin talks of diverting the *Shk3bn (£660m) now spent each year* on Jewish settlements to investment inside Israel. He hopes winning the US loan guarantees will free funds for a big programme of infrastructural investment. *His goal is to revive* immigration, which has slipped under the burden of unemployment but which is still regarded as a vital demographic asset for Israel.

However, Mr Rabin's commitment to economic reform looks suspect. He *has said he favours only limited pri*vatisation of the 150 state-owned companies, not wanting so-called strategic companies – such as the airline El Al – to slip out of government control.

He also comes from the traditional*ist wing of Labour that* was firmly socialist and which continues to support the strong ties with the Histadrut trade union federation which has been one of the main forces opposing wholesale market reforms.

It is ironic that the man who will preside over what a Meretz leader yesterday called a new era in Israel comes from the generation of the state's founding days. The outlook for Middle East peace is nevertheless *brighter as a result of his election.* But Yitzhak Rabin faces many formidable tests, at home and abroad, to prove he can indeed lead Israel to peace and prosperity.

See Editorial Comment

Unlikely hero gave Labour its triumph

By Hugh Carnegy in Jerusalem

THE resounding general election victory by the *Labour* party is more than anything a *remarkable* endorsement by Israelis of the leadership of a man who first became prime minister 18 years ago and who has never displayed the qualities of a *natural politician.*

It was the enduring popularity of Mr Yitzhak Rabin that carried Labour to its triumph, overturning the long domination by the right-wing *Likud* party that began shortly after Mr Rabin was forced to step down as Labour leader in 1977 amid a scandal over his wife's illegal foreign bank accounts.

Once he had at last unseated *his successor Mr Shimon* Peres in a party leadership ballot in February, Mr Rabin set about beating the Likud with a highly personalised campaign which played *heavily on his* record as a tough general and *defence* minister. The message was that voters fed up with Likud's poor performance in office could *support* Labour's more conciliatory stance on *the Middle East peace process* without worrying that the government would be "soft" on security issues.

Mr Rabin is an unlikely figurehead. At 70, his famous growling voice is prone to crack into a *smoker's* cough. His rhetoric is stolid, not inspiring. He appears flushed and weary and does not readily break into a smile. During the campaign, Likud tried to damage him by reviving stories of *the breakdown* he *suffered* as chief of staff on the eve of the 1967 Six Day War – he says it was exhaustion – and his reputation as a heavy drinker.

These attacks apparently made no impact on Mr Rabin's electability – his most precious quality for Labour which had suffered four election failures under Mr Peres. But, judging by his rather frail appearance, there may well be a legitimate *question mark* over Mr Rabin's physical resilience.

For now, however, the chief issue is how different his policies will be from those of the Likud which refused to give up any of the occupied territories in *peace negotiations.*

SEATS IN KNESSET

Labour	45
Meretz	12
Likud	32
Far right	9
Religious parties	17
Arab parties	5
Total	120

Mr Rabin, born in Jerusalem *under the British Mandate* when only 150,000 Jews lived in all of what is now Israel, is committed to sustaining "the Jewish State" – that is, an *Israel in which Jews form the* overwhelming majority. It is *for this reason above all others* that he is prepared to give up those parts of the occupied West Bank and Gaza most heavily populated by Arabs.

"*I have never believed that* by swallowing over 1.5m Palestinians *of the territories* Israel will be able to be a Jewish democratic state. It would become a bi-national state. That is not the way *I* interpret *the Zionist* dream and *the* dream of generations of Jews about the return to Zion."

However, he warns there is no "short cut to peace", and that it has to be achieved without compromising Israel's security.

Arabs see chance for new era in peace-making

Tony Walker looks at Arab reaction

WITH A few predictable exceptions, Arabs have reacted positively to the Labour Party's election win. The Palestinians have urged Mr Yitzhak Rabin, the party leader, to move quickly towards autonomy negotiations.

Among the most favourable reactions were those of Egypt and Jordan, which hailed the victory as an opportunity for a new era in peacemaking.

In Cairo, Dr Osama al-Baz, a *senior foreign policy official*, said Egypt hoped the result would "give a strong push to peace efforts and the reaping of a golden opportunity to achieve an historic reconciliation between Israel and the Arabs". In Amman, Dr Kamal Abu Jaber, Jordan's foreign minister, saw it as "the end of an era and the beginning of a new page in Israeli politics".

Positive reactions in Arab capitals to the defeat of Mr Yitzhak Shamir *reflect* a general belief that Middle East peace negotiations were doomed as long the Likud government was in power.

Mrs *Hanan* Ashrawi, the chief Palestinian spokeswoman, expressed a common view when she told reporters in Amman that "the peace process has been rescued from Likud attempts at sabotaging it". *She hoped that as soon as* the new government was formed it would "proceed with the steps that it announced earlier".

This was a reference to Mr Rabin's promise to freeze "political settlements" in the West Bank and Gaza Strip – those deemed not vital to *Israel's* security – and move quickly to begin negotiations on Palestinian self-rule in the occupied territories under the Camp David formula of 1978.

US-sponsored bilateral peace talks are due to resume in Rome next month between Israel and her Arab neighbours – including Syria, Lebanon and a Palestinian-Jordanian team.

The talks, launched amid much fanfare in Madrid last October, have made little progress. The presence in Rome of new Israeli negotiators seems certain to promote a more constructive atmosphere.

But Palestinian delegates to the talks warned that while the Labour party would be more flexible on autonomy, it was likely to adopt a hard line on the final status of the territories. The Palestinians want their own independent state, possibly *in confederation with* Jordan.

Syria reacted cautiously to the change in Israel, although it applauded Mr Shamir's defeat. Mr Farouk al-Shara, foreign minister, said Damascus reserved judgment. Syria is seeking the return of the Golan Heights seized in the 1967 war, and annexed by the nationalist government of Mr Menachem Begin in 1981.

Mr Rabin has spoken of "creative solutions" to resolve the Golan issue, but has not gone into details, beyond raising the *possibility of Israel continuing* to utilise the heights while recognising Syrian sovereignty.

The Palestine Liberation Organisation welcomed the Labour victory. Mr Nabil *Shaath*, a *senior adviser to* Mr Yassir Arafat, the PLO leader, said he hoped Mr Rabin would "stop settlements immediately and will proceed to bring about quick action to install a Palestinian interim self-government by November 1".

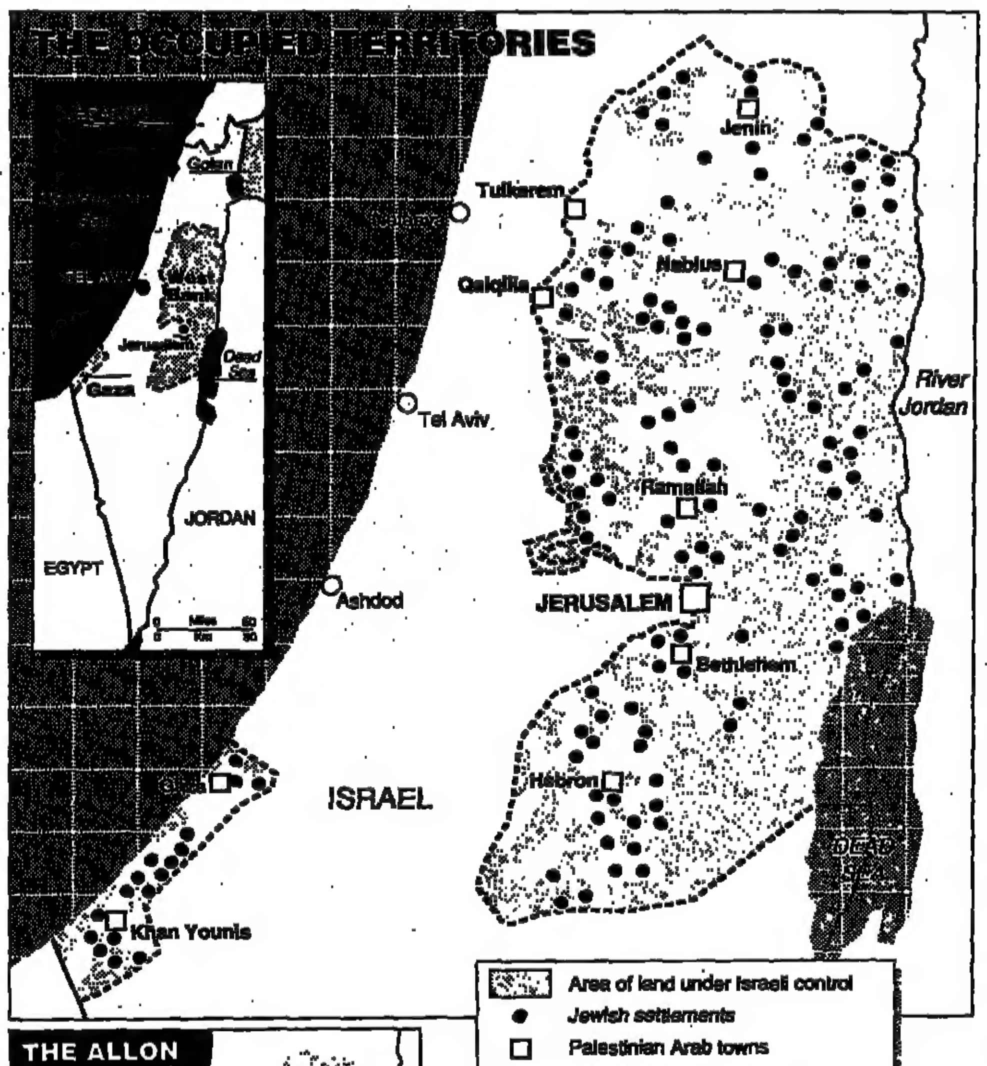
But in Jerusalem, Dr Mehdi Abdul Hadi, a prominent academic, said the Palestinians would now have to think more seriously about the implications and practicalities of *autonomy*. "We have to be prepared. They will want us to meet them half-way."

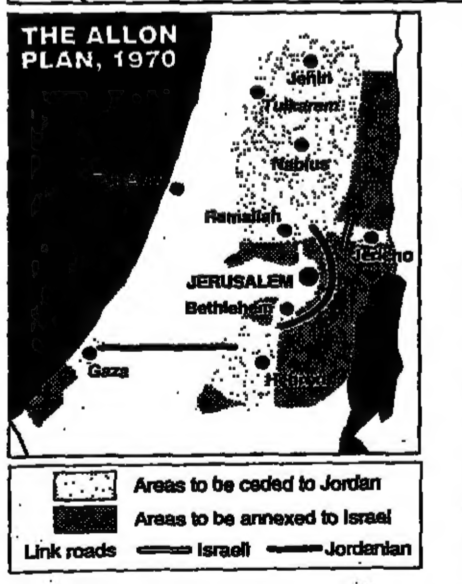
Palestinians in the territories have been engaged in planning for *interim self-rule*. Under such a formula Israel would retain responsibility for security, but would pull back from population centres allowing the 1.75m Arabs of the territories to administer themselves.

Sour reactions to the Labour victory came from Iran and its proxy Hizbollah militia in Lebanon. Tehran Radio said there was "no fundamental difference" between Labour and Likud. "The victory of the Labour party. . . . in no way signifies a decrease in the Zionist regime's expansionist expectations," *it said.*

In Beirut, a Hizbollah leader said the guerrilla warfare against Israel's south Lebanon security zone would continue.

The Lebanese government, on the other hand, said it hoped Mr Rabin would facilitate Israel's withdrawal from Lebanon under the terms of Security Council Resolution 425 passed during an Israeli incursion in 1978. Mr Rabin, as defence minister in a national unity government in 1985, *helped set up Israel's 15km*-wide security zone in southern Lebanon.





Israel population: 4,895,700
(including East Jerusalem and the Golan Heights)
Jews: 4,010,300
Other (mainly Arab): 885,400
Source: Israel Bureau of Statistics, April 91

Occupied territories:
Settlers (Jewish):
West Bank: 90-100,000 *(in approx 150 settlements)*
Gaza Strip: c. 3,000 *(in approx 15 settlements)*
Golan Heights: 12,000 *(in approx 30 settlements)*
East Jerusalem: 120,000 *(in 12 neighbourhoods)*
Source: US State Department 20.3.91 report
Palestinians:
West Bank: 900,000-1m
Gaza Strip: 670,000-750,000
Source: Israel's Civil Administration

Likud faces period of feuding over selection of new leader

SUDDENLY, the familiar self-assurance of Israel's Likud leaders, cultivated over a decade-and-a-half in power, evaporated, Hugh Carnegy reports. Mr Yitzhak Shamir, prime minister for seven of the last nine years, managed to prop up a smile, but the crumpled features of his colleagues at the party's election headquarters told the story.

The Likud, which swaggered into government under the late Menachem Begin in 1977, had now suffered the kind of defeat it then inflicted on the Labour party. The party's total of 32 seats in the Knesset (parliament) was eight less than it won in 1988 and the lowest it has held since 1969.

Mr Shamir, in a rare show of emotion, appealed for unity in a flailing speech to party workers in which he vowed that the Likud and its vision of a "Greater Israel" would bounce back. But in the short term it is more likely that the party will be riven by internal feuding over the succession to Mr Shamir which began well before Tuesday's vote.

At 76, the tenacious Mr Shamir may yet hang on awhile in an effort to hold the party together. But he himself signalled that he will not go on indefinitely. "I am at the end of my personal road," he said.

The election loss must be laid largely at his door. The master for years of reactive leadership, he was found hopelessly wanting when the challenges to Israel of the last two years demanded initiative. He lost the confidence of many Likud supporters by his stalling approach to the Middle East peace process. He allowed the economy to drift when it faced the burden of mass immigration from the former Soviet Union and he did nothing to prevent his potential successors fighting a bitter public battle.

The consequence was that more than *half* the 250,000 immigrant voters plumped for Labour and its allies. Significantly, it also appears that thousands of the Likud's old bedrock supporters among Sephardi (oriental) Jews in hard-up Israeli development towns defected.

The senior candidates to succeed Mr Shamir will be Mr Moshe Arens, the outgoing defence minister, Mr Ariel Sharon, housing minister, and Mr David Levy, the foreign minister. But the party may look for rejuvenation to Mr Binyamin Begin, son of Menachem Begin and a charismatic figure, who has already said he would stand.

Settlers are defiant but anxious

JEWISH SETTLERS in the occupied territories, who for the past two years enjoyed unprecedented government support, reacted with a mixture of shock, defiance and disquiet to the crushing general election victory by Labour and its strongly anti-settler allies, Hugh Carnegy writes.

"People are disappointed. They are subdued and there is some anxiety," said Ms Sondra Baras, a resident of Karnei Shomron in the northern West Bank. "But no one is packing their bags, that's for sure. We are not going to be taken out of here and nothing is going to be dismantled."

There was no escaping the fact that the settlers, scattered in their fortress-like townships in the West Bank and Gaza Strip, were among the principal losers in the election as Israeli voters turned their backs on the right-wing ideology that fuels the drive to people all of *Eretz Israel* – the biblical Land of Israel – with Jews.

The settlers had grown accustomed to material and political support from the Likud party since it came to power in 1977. Since mid-1990, when Prime Minister Yitzhak Shamir formed a coalition with small far-right and religious parties, the patronage increased *dramatically, led by* Mr Ariel Sharon, the pro-settlement housing minister.

Settler numbers in the West Bank and Gaza grew by around 20 per cent to 100,000 – excluding a further 120,000 in Arab East Jerusalem. Construction began on more than 20,000 new apartments. Overall, the government was estimated to be spending around Shk3bn (£660m) a year on settlements in the West Bank and Gaza.

Now the settlers are facing a very different outlook. Mr Yitzhak Rabin, the Labour leader, supports settlement in East Jerusalem and other areas he deems important to maintaining Israel's security. But he has signalled a willingness to freeze what he calls "political settlements" and promises to channel government funds away from them to investment within "Israel proper".

He will face strong resistance. "*If Labour wants to freeze the settlements and* conduct negotiations on a Palestinian state, the Likud and the whole nationalist camp must stop it, not necessarily in parliament but with settlements," said Ms Geula Cohen of the Tehiya party, which lost all its three Knesset seats in the election.

Ms Baras pointed out another problem for Mr Rabin. The government is pledged to buy back at state expense any of the 9,000 vacant apartments in the territories which cannot be sold by their builders.

Washington looks forward to a less frosty relationship

By George Graham in Washington

RELATIONS between the US and Israel have rarely been frostier than they have over the past two years, and the Bush administration's pleasure at the prospect of dealing with a new Israeli government is scarcely disguised.

President George Bush and Prime Minister Yitzhak Shamir never got along. They clashed on policy – notably about the issue of US loan guarantees to help resettle Jewish immigrants from the former Soviet Union, and about Likud's refusal to give up occupied territories in return for a Middle East peace settlement – but their conflict was compounded by personal antipathy.

Mr Bush and Mr James Baker, the US secretary of state, have always had a much warmer relationship with Mr Yitzhak Rabin, the Labour leader, who as defence minister was a frequent visitor to Washington earlier in the Bush administration.

The US administration yesterday refrained from direct comment on the Israeli election results, but Mr Baker made perfectly clear his belief that the likelihood of a Labour government should provide new impetus to the Middle East process, which has been largely stalled since the last round of negotiations in Washington in April.

"I would hope that we could see the next round of bilateral discussions taking place just as soon as it is conveniently possible in the aftermath of the formation of a new Israeli government," Mr Baker said yesterday.

While no one believes that progress in the peace talks will be easy, even with a Labour government, Labour is expected at least to be less dogmatic than Likud on the principle of giving up, in exchange for peace, some of the occupied territories.

On issues such as settlements policy and Palestinian self-government, the Labour party stands much closer than Mr Shamir's Likud to the Bush administration's view of the necessary components for a Middle East peace settlement.

A shift in policy on settlements – even though Mr Rabin rules out only "political" settlements, not those which serve some security purpose – could open the door for Israel to revive its request for the US to guarantee $10bn (£5.4bn) of loans to help with the resettlement of Jewish immigrants from the former Soviet Union.

However, Mr Baker refused to speculate on that possibility, warning that it might be days or weeks before a new Israeli government was in place.

In Congress, too, aides said that while some members *might* see the Israeli election results as an opportunity to revive the loan guarantees issue, any discussion before the formation of a new government would be premature. They noted that congressional opposition to the loan guarantees was based not only on Israel's settlements policy, but on a more general reluctance to vote for any kind of foreign aid in an election year.

Pace of democracy splits Hong Kong legislature

By Simon Holberton in Hong Kong

HONG KONG'S legislature last night split over the pace of democratisation in the colony, bringing to an end an almost three-year pact which sought more popularly elected seats for the colony's 1995 elections.

The members of the legislature voted 25 to 23 against a motion by liberal legislator Mr James McGregor which asked for the Legislative Council's reaffirmation of the October 1989 "Omelco consensus" struck by members of both the Legislative and Executive (cabinet) councils.

The Omelco consensus called for a much faster introduction of elective democracy in the colony than Britain and China had previously agreed. For the 1995 elections it proposed that 30, or half, the legislature should be directly elected, instead of the 18 earlier agreed by Beijing and London and the 20 subsequently achieved by the UK through negotiation.

The vote underlines the clear divisions over how best to deal with China ahead of the colony's transfer to Chinese sovereignty in 1997.

Those who voted against Mr McGregor – all of whom were either appointed members or elected to the legislature through a limited franchise – said they saw no possibility of China agreeing to more elective democracy before 1997. It was, therefore, better to work with China rather than unnecessarily angering it, they said.

Mr McGregor's supporters – who included all popularly elected politicians – said that only through an increase in representative democracy could the people's rights be safeguarded and Hong Kong be assured of the "high degree of autonomy" it was promised in 1984 when Britain and China agreed the terms of the transfer of sovereignty.

The vote highlights the difficulties facing Mr Chris Patten, Hong Kong's incoming governor. He will be one of the British government's key advisers on how to deal with China on a range of political issues in the lead up to 1997. But he will have to tender that advice in the full knowledge that he represents a divided community.

The decision by the legislature also weakens the position of Britain which has, since early 1990, said it would raise the issue of faster democratisation with the Chinese government. On a visit to the colony in May, Mr Alastair Goodlad, a junior foreign office minister responsible for Hong Kong, said Britain would take up the issue with China soon.

In early 1990 the UK had achieved an increase to 18 from 10 popularly elected seats for the 1991 elections and an undertaking from China that no fewer than 20 members would be popularly elected in the 1995 elections. The spirit of this agreement was incorporated into the Beijing-drafted Basic Law – the colony's post-1997 constitution – and passed by the Chinese parliament in April 1990.

China has said repeatedly that it will not change the Basic Law before 1997 and has denounced those who want its amendment as "subversive".

Drought looms over talks on Indian aid

By David Housego in Paris

INDIA is to meet western donor nations in Paris today for a two-day meeting overshadowed by fears that the momentum of economic reform could be jeopardised by a worsening drought.

India is seeking from the consortium of donor nations under the chairmanship of the World Bank $6.7bn (£3.6bn) in aid pledges for 1992-93 – most of which would be dispersed over the medium term. It is also seeking $3bn in emergency balance of payments support for the coming year – of which $2.4bn is expected to come from the IMF and the World Bank.

The meeting is seen as a guide to the mood among givers of aid – in particular whether they push for tougher conditions on future assistance. The World Bank in its annual report on India's economy praised reforms over the last year but emphasised the need to maintain momentum.

The government's fear is that reform could be set back by a bad monsoon – exacerbating inflation and increasing food imports. Rainfall is forecast as likely to be well below normal, worsening the drought in central and western India.

The World Bank says India will require a gross capital inflow – grants and loans – of $9.8bn in 1992-93 to finance its current account deficit and debt repayments.

Fresh move in Bombay scandal

STANDARD Chartered Bank yesterday lodged a formal complaint against two former employees, alleging that they were involved in a criminal breach of trust and a Rs8.9bn (£171m) securities fraud, Our Foreign Staff reports.

The two securities dealers at the bank's Bombay office were dismissed earlier this month after being implicated in India's worst securities market scandal. Seven other people were also named in Standard Chartered's complaint, which was lodged with the Bombay police.

A statement from the bank emphasised that it was co-operating fully with India's Criminal Bureau of Investigation which is spearheading the inquiry into the Rs30bn securities scandal that has forced the closure of the Bombay bourse. It also denied the CBI had raided bank premises as part of its investigation.

Correction

Standard Chartered

Owing to a transmission error, the Financial Times yesterday incorrectly reported that the Indian authorities had brought criminal charges against Standard Chartered Bank in India in connection with a securities market scandal. The report should have said that criminal charges had been brought against two former employees of Standard Chartered Bank.

Seoul 'making progress' in stabilising economy

By John Burton in Seoul

SEOUL is making progress in stabilising South Korea's overheated economy, the Bank of Korea, the country's central bank, said in its revised economic forecast for 1992 yesterday. The government has informally adopted a target of "triple seven" economy this year: 7 per cent GNP growth rate, 7 per cent inflation, and a $7bn (£3.7bn) current account deficit.

The bank predicts the economy will grow 7.3 per cent against 8.4 per cent in 1991.

Inflation will slow to 8 per cent from 9.3 per cent in 1991 due to lower economic growth and moderate wage increases. The current account deficit will shrink to $6.7bn from $8.7bn last year as the trade deficit narrows to $4.3bn due to improved export growth.

Exports will rise 9 per cent, reflecting a recovery in Seoul's main overseas markets and the won's depreciation. Imports will grow 5.6 per cent as the economic slowdown curbs demand.

Nick Greiner, right, who resigned yesterday, pictured recently with Terry Metherell

Embattled state premier steps down

MR Nick Greiner, premier of New South Wales, Australia's most populous state, resigned yesterday five days after a finding against him by the Independent Anti-Corruption Commission, writes Emilia Tagaza in Canberra. He was replaced by Mr John Fahey, the industrial relations minister, who becomes Liberal party leader as well.

The commission found Mr Greiner had acted corruptly in sanctioning the appointment of Mr Terry Metherell, an independent MP, to a senior public service job.

Mr Greiner was forced to resign after three independent MPs who hold the balance of power in the state parliament had threatened to vote with the opposition Labor party in a no-confidence motion.

Mr Greiner had offered to stand down until the Supreme Court ruled on his appeal against the commission finding and to resign if the court upheld the finding.

The offer was rejected by the independents.

Two other ministers also resigned yesterday: Mr Tim Moore, the environment minister, who the commission found had helped arrange the appointment to the public service job, and Mr Michael Yabsley, the tourism minister, who had said he would quit if Mr Greiner resigned. Mr Metherell, has also quit the public service position.

Japan's employers launch attack on US trade policy

By Stefan Wagstyl in Tokyo

THE Japanese employers' federation, Keidanren, has launched an unprecedentedly strong attack on US trade and economic policy.

In a report on bilateral relations, the Keidanren accuses the US of dragging its feet over economic reform and warns of the danger of protectionism in moves to establish a North American Free Trade Area. It also expresses concern about the US insistence that its own institutions and practices are to be applicable as norms of the world economic and social system.

The report has been published just days before Mr Kiichi Miyazawa, the prime minister, is due to leave for the Munich summit of Group of Seven leaders. On his way he will visit Washington for a meeting with President George Bush to discuss bilateral trade and economic imbalances.

The Keidanren argues that Japan and its main trading partners must achieve *kyosei* – symbiosis – which is the organisation's catchword for harmonising institutions and commercial practices.

It says Japan and the US have been discussing such harmonisation for three years in talks called the Strategic Impediments Initiative. The Keidanren says Japan has made progress in opening its markets as requested by the US, though more needs to be done.

However, it says: "The SII process is designed to be a two-way street. Unfortunately, the US is lagging in its response to the structural issues raised by the Japanese side."

The Keidanren singles out contradictions in US policy – contrasting US demands for further deregulation in Japan with its requests for intervention by Tokyo to boost imports in specific sectors.

The report also makes criticisms of the Japanese economy, including the opaqueness of commercial dealings, a tendency to work over-long hours and an exaggerated emphasis on market share.

Office space glut hits Tokyo property market

By Steven Butler in Tokyo

A GLUT of office space has finally struck the Tokyo property market, with a resulting decline in rents, according to a study by KK Halifax Associates, the property agent and developer.

While the excess of office space may be seen as a natural result of the high pace of building in recent years combined with the slowdown in the economy, many analysts had expected the plunge in property prices in the past year would have little impact on rents.

Halifax, however, says rents are already falling, and it forecasts an 11 per cent decline in rates this year, largely because Japanese companies have largely stopped seeking new leases.

It says that about 12m sq ft of office space was built in Tokyo annually from 1981 to 1985, but that this increased to 30m sq ft a year in the subsequent five years, an annual increase of 6.42 per cent.

Between 1985, the office population in Tokyo increased by 13 per cent to 4m, but additions to floor space rose 42 per cent, leaving a current potential surplus of 62m sq ft. Large additions to current stock are also expected this year and next, after which the momentum will give out.

Halifax says the vacant-building rate should climb from less than a quarter of 1 per cent in 1990 to 2 per cent this year. Vacant space in older buildings has climbed from 8.75m sq ft in 1990, to 29m sq ft on May 1.

Big cloud over tobacco

The US Supreme Court filters a layer of smoke obscuring state liability laws, writes Nikki Tait

THE US Supreme Court ruling on smokers' lawsuits has hung, like an ominous black cloud, over the tobacco industry for 15 months. Yesterday, it knew the worst: the nine justices of the highest court in the US decided by 7:2 that smokers can sue tobacco companies under state liability laws.

Despite the emotion surrounding smokers' suits, the Supreme Court was dealing with a narrow, but fundamental, legal principle – the relationship between state and federal laws in the US. Given the record of the judges it was likely a majority would be loath to pre-empt the authority of the states entirely.

The case on which the decision is based is *Cipollone v. Liggett et al.* Mrs Rose Cipollene, a life-long smoker, sued three tobacco companies after having a cancerous lung removed in 1983. She died in 1984, but the suit was pursued by her husband and when he died, her family continued the fight.

The Cipollene case was remarkable among the raft of smokers' suits because it progressed – at least briefly. In 1988, a Newark-based jury awarded Mr Cipollone $400,000 on the grounds that the Liggett tobacco company had misrepresented the risks of smoking in its advertisements for Chesterfield and L&M cigarettes. Although the jury found contributory negligence on Mrs Cipollone's part, this was the first verdict requiring a tobacco company to compensate the family of a smoker who had died of cancer.

Two years later, however, the award was overturned by a federal appeals court. The court concluded that jurors had been allowed to consider Mrs Cipollone's smoking habits after 1966 – when the federal law requiring health warnings on cigarettes packets came into force – but not the tobacco companies' post-1966 marketing practices.

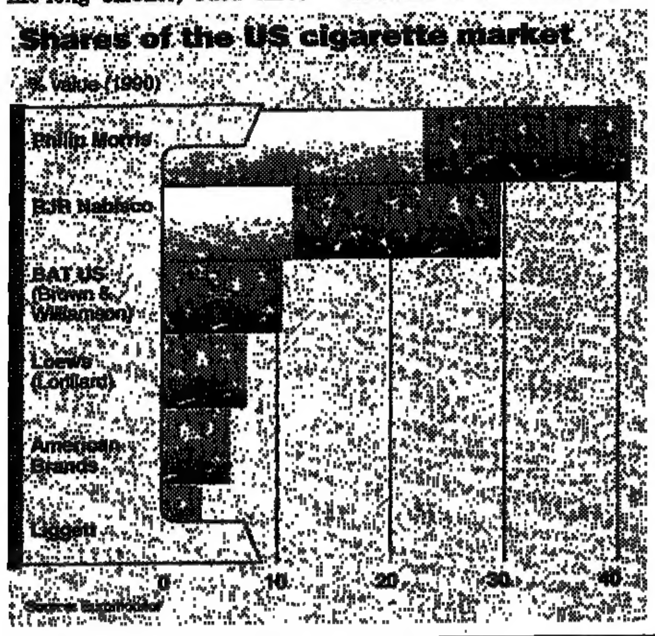
This question of whether federally mandated warning labels protected tobacco companies from personal injury claims under state liability laws came to dominate the debate, with more contradictory rulings ensuing in other courts.

With a fundamental judicial issue at stake, the Supreme Court agreed to intervene in early 1991 – a move, incidentally, supported by both the tobacco companies and the Cipollene plaintiffs.

But, for all the jubilation in the anti-smoking camp yesterday, it remains a moot point how far the Supreme Court ruling will advance smokers' suits.

Only two justices - Antonin Scalia and Clarence Thomas - said they would bar all suits under state liability laws, the other seven offered a range of views on what type of claims are precluded by federal labelling law, and which are not. This should provide the lawyers with plenty of grounds for argument in the future.

Secondly, as the tobacco companies have noted all along, the ability to bring state liability cases to court, does not automatically mean that they will be won. The tobacco industry has mounted skillful defence tactics in the past - and arguments such as contributory negligence will doubtless resurface.




FLAGGED DOWN: A woman carrying a Venezuelan flag confronts a shotgun-carrying policeman in Caracas during the latest anti-government demonstration over free-market economic reforms

Congress may intervene in US rail strike

By Karen Zagor in New York

CONGRESS prepared to intervene in the US rail dispute yesterday, as the system ground to a virtual halt after a machinists' union strike against CSX Transportation, one of the biggest freight lines.

There are Congressional powers to impose labour settlements on the rail industry.

Mr Michael Boskin, White House chief economist, estimated that the strike would cost the economy about $1bn a day and might lead to thousands of lay-offs.

Testifying before the House energy and commerce subcommittee on transportation, he said: "A prolonged strike could well push us into negative growth." The car industry, which obtains parts and ships finished products by rail, is particularly vulnerable.

The coherence of the US rail system means a strike in one part can shut freight and some passenger traffic nationally.

CSX links with most of the main US rail gateways, including New Orleans, Chicago, Saint Louis, Memphis and Philadelphia. Also, passenger trains run on CSX tracks.

The International Association of Machinists had failed to agree with CSX over contracts.

President calls for further rate cut by Fed

By Jurek Martin, US Editor, in Washington

PRESIDENT George Bush yesterday called on the Federal Reserve to cut interest rates further, on the grounds that the risk of renewed inflation was now very slight.

"I don't think the argument that lowering the rates will stimulate the long term – shoot the long-term rates up – is valid any more." Mr Bush said in an interview with the New York Times. Inflation, he asserted, was not "the big problem now."

His concern about the sluggish rate of economic recovery received some validation yesterday with the report that US durable goods orders in May fell sharply by 2.4 per cent, after revised increases of 1.9 per cent and 2.1 per cent respectively in April and March.

Although the monthly durable goods figures are notoriously volatile, the figures for last month were worse than the markets had expected and led to a decline in long-term Treasury bond rates.

The Commerce Department said the drop in orders for transport equipment, especially aircraft, and for defence goods accounted for most of the overall decline – but no important industrial sector recorded an increase.

In his interview, Mr Bush expressed natural political frustration that the statistical improvement in the economy this year had not been reflected in the public opinion polls. These still show a popular perception of continuing decline and a lack of confidence in his ability to manage the economy.

He insisted he had to be "a little careful about Fed bashing", but "I don't know of any president that would like to advocate higher interest rates – and certainly I'm not one."

The central bank, however, has preferred a cautious approach. It last lowered the overnight federal funds rate on April 9 to 3.75 per cent from 4 per cent.

In December it had cut the discount rate by a full percentage point to 3.5 per cent. It was reported to have decided to adopt a neutral stance at the last meeting of its open market committee, in May.

In congressional testimony last week, Mr Alan Greenspan, the Fed chairman, said considerable progress towards price stability had been made, but that the bank "fully intends to guard against re-igniting inflation".

Mr Bush's economic and political advisers are known to be concerned about the halting economic recovery.

It is axiomatic that the president's re-election chances hinge in good part on a more vigorous US expansion. The jump last month in unemployment – to 7.5 per cent – was precisely the sort of economic statistic that the president does not need at present.

Argentina does debt deal with banks

By Stephen Fidler, Latin America Editor

THE ARGENTINE government and its leading bank creditors yesterday announced they had reached a detailed agreement on a debt restructuring under the Brady plan.

An outline agreement on Argentina's $23bn of medium-term international bank debt and $8bn of interest arrears was reached in April, and the detailed accord comes after two weeks of intense negotiations in New York.

The final term sheet will be sent to all creditor banks shortly. Mr William Rhodes, vice-chairman of Citicorp, which heads the bank advisory committee, said he expected the deal to be signed by September and completed by year-end. However, there is no incentive payment, unlike in other Brady deals, to encourage banks to sign early.

The menu available to banks is more limited than in any prior deal under the Brady plan, the debt reduction initiative launched three years ago by Mr Nicholas Brady, US Treasury Secretary.

Argentina has resisted allowing banks the option of making new loans, available for example in the Venezuelan and Mexican Brady deals. Banks have only two choices: exchange their old loans for new 30-year bonds with a discount to face value of 35 per cent, or exchange for "par" bonds which carry pre-set concessional interest rates. These bonds may be denominated in dollars or D-Marks.

Bankers expressed concern last night that the freedom of choice of banks to choose might be further restricted by multilateral agencies – the International Monetary Fund and the World Bank, which support Brady deals with special financing. The agencies have indicated their support for the deal is dependent on the right mix of reduction in debt service and in debt principal.

Interest arrears will be treated separately, and Argentina has agreed to pay interest on the past due interest.

Missing Exxon man may be dead

By Alan Friedman in New York

FEARS are growing among US police and FBI agents that Mr Sidney Reso, the senior Exxon executive who went missing on April 29, may be dead.

Law enforcement officials have said that Mr and Mrs Arthur Seale, the former Exxon security guard and his wife who were arrested last week and charged with kidnapping Mr Reso, have been questioned by police but are refusing to co-operate.

The FBI, while seeking other suspects, is less and less certain whether the Seales – who are alleged to have demanded $18.5m in ransom before they were captured last week – had an accomplice.

"If Mr and Mrs Seale are the only parties involved, we would not be optimistic about Mr Reso still being alive," one law enforcement official said.

"We continue to hope there are additional co-conspirators still holding Mr Reso," the FBI said yesterday. "We continue to work on the premise that he is still alive, absent information to the contrary. But, as time goes on, one becomes less optimistic."

Perot accuses Bush of dirty tricks campaign

By Jurek Martin in Washington

MR ROSS Perot yesterday bluntly accused President George Bush of orchestrating a "Republican dirty tricks committee" designed to discredit his independent candidacy for the presidency.

Recent accusations against him would "make Hitler's propaganda chief proud," Mr Perot said, adding that Mr Bush's anger over reports that the Texan billionaire had investigated the president's family was "a total act."

The president, he said, was "in charge of the whole process. That party does not run there out of control."

Mr Perot's extraordinary tirade was vented in a television interview yesterday morning, to be supplemented by a later news conference. Both events had been hurriedly arranged to allow him to respond to a series of recent reports that he had authorised investigations of the private lives of public figures, including the Bush family.

He claimed that the spate of stories had come out now because the White House thought he would announce his candidacy on his birthday, on Saturday, and wanted to "redefine" his personality.

"The good news is that this will hurt them, and hurt them badly, because the American people are just furious with this little theatre programme they run in Washington," he said. Mr Perot's campaign telephone banks were reverberating with public anger, he claimed.

Mr Perot's personal antipathy towards the president has never been a secret, though he insisted yesterday he only had the "warmest, kindest feelings" towards Mr Bush and his family. He cited a 1986 letter from Mr Bush to thank him for having brought to his attention rumours that Mr Bush's sons might have been involved in the Iran-Contra affair.

But this disclaimer paled into insignificance when compared with the rest of his remarks. It also drew a barbed response from Mr Marlin Fitzwater, the White House spokesman, who said the letter had been written at a time when Mr Bush considered Mr Perot a friend. "I think he [Mr Perot] has taken care of that now," adding that "Mr Perot's paranoia knows no bounds."

The president himself, in a TV interview to be aired this week, described the reports of Mr Perot's investigations of his family as "beyond the pale," adding: "Leave my kids alone, I say". Governor Bill Clinton, the likely Democratic party candidate, said Mr Bush was right in this.

More generally, Mr Perot has been under attack from left and right for alleged disregard of civil liberties. His advisers had concluded that he could not ignore all these charges and still maintain his populist campaign for the White House.

Mr Perot did not deny yesterday that he had ordered private investigations on occasion, in the course of his business dealings and as part of his crusade to identify Americans missing in action or held as prisoners of war in Indochina. He also conceded that he had his lawyers look into an oil lease transaction in Texas alleged to have benefitted one of Mr Bush's oldest associates. This, he said, was because he was considering buying a parcel of the land involved.

"If you look at my whole life," he declared. "I have meticulously followed the law. Anybody that knows me or knows anything about me would understand that I would never even consider violating the great principles this country is founded on. This is nothing but politics at its worst and lowest."


Bill Clinton shakes hands with John Conyers, a senior Democrat and chairman of the black caucus in the US Congress, who has endorsed the Arkansas governor's presidential bid

Names mount sustained attack on management after £2.06bn losses announced for 1989

Investors attack regulation of Lloyd's

By Richard Lapper and David Owen

LLOYD'S of London came under sustained criticism from the Names whose assets *provide the market's capital base* at its annual general meeting yesterday, when losses of £2.06bn for the 1989 year were announced.

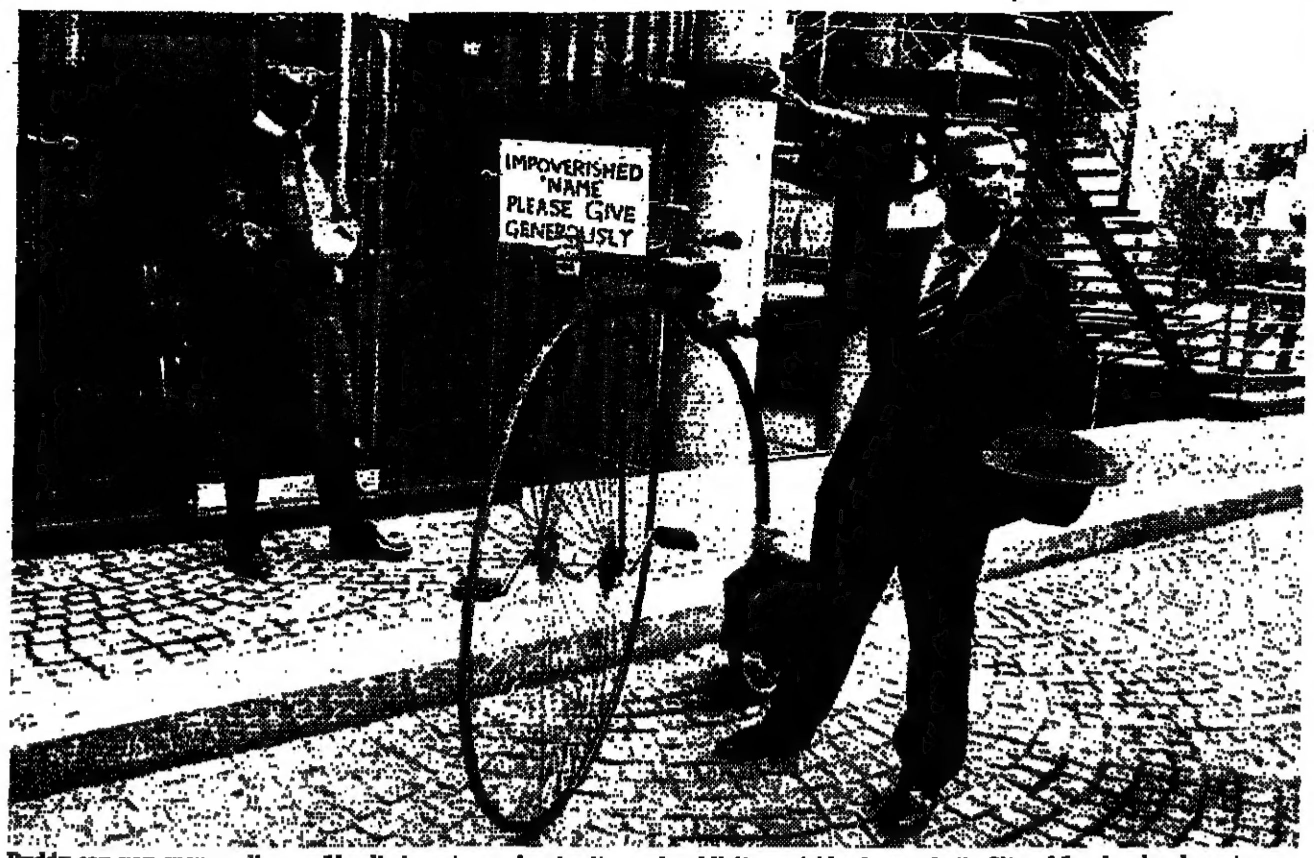
An estimated 5,200 Names – nearly a sixth of the insurance market's membership in 1989 – attended the meeting, held at its City headquarters and dozens spoke out in a meeting lasting a record six hours and six minutes.

Although many were fiercely critical of Mr David Coleridge, Lloyd's chairman, and the governing council, the meeting was generally good-tempered, with very little heckling. The "chaos" feared by some Names' leaders failed to develop.

Mr Val Powell, chief executive of the Association of Lloyd's Members, the biggest Names' organisation, which represents over 9,000, said: "The meeting was held in a more constructive manner than generally expected."

Mr Coleridge fielded questions in a marathon session during which the harshest attacks came from Names on syndicates which participated in "spiral" reinsurance business, in which syndicates and London market companies reinsure each other's catastrophe exposures.

Mr John Harris, one of over 4,000 Names on the loss-making Gooda Walker syndicates, said: "Some of us put our trust in the history and reputation of this institution and we feel totally betrayed."



Buddy can you spare a dime: a Lloyd's investor seeks charity, and publicity, outside the market's City of London headquarters

Gooda Walker's losses amount to £491m, nearly a quarter of the total. Mr Harris received warm applause when he said that he had been offered "irresponsible advice" by the Gooda & Partners agency – which was part of the Gooda Walker empire – to become a member of several "spiral" syndicates.

Another Gooda Name, Mr Michael Deeny, said that Lloyd's had "failed to regulate the market and allowed the disastrous growth of the spiral. We had hoped you might acknowledge some level of responsibility for what has happened". He said that Gooda Walker Names were victims of "at best gross negligence and at worst fraud."

Many Names criticised Lloyd's for the imposition of a levy on the Central Fund, which will cost them an average of £20,000 per head, while others focused on the Council's rejection of a bail-out scheme to help the hardest hit. In his opening address, Mr Coleridge reported that £398m of the £2.06bn loss had occurred because of a continuing influx of United States pollution and asbestos-related claims. "Huge uncertainty continues to surround the outcome on pollution claims," he said.

Mr Coleridge faces a further grilling this week from a delegation of about 40 members of parliament. According to Lloyd's, invitations were issued to all 651 MPs.

Losses for the 1989 underwriting account increased to £2.06bn compared with £510m in 1988, according to preliminary unaudited figures released.

Underwriting losses in 1989 were £1,373m, while Names' personal expenses amounted to £292m. An extra £398m was earmarked to strengthen reserves for claims that are expected to emerge on business underwritten in earlier years.

Syndicates in the non-marine and marine market were worst hit with losses climbing to £1,762m (£1,149m) and £1,326m (£321m) respectively.

Syndicates in the aviation and motor markets both made profits of £281m (£16m) and £597m (£52m) respectively.

The worst losses were heavily concentrated among a minority of syndicates specialising in catastrophe reinsurance business.

Five syndicates (255, 290, 298, 540 and 347) accounted for 34 per cent of the overall loss and two agencies – Gooda Walker (25 per cent) and Feltrim (12 per cent) accounted for 37 per cent of the loss.

Lloyd's also gave details on the strengthening of its asset base during 1991.

The premium trust funds – into which insurance premiums are paid – rose from £9,808m to £12,253m. Confirmed members' means (which include deposits, personal and special reserves) fell to £7,295m (£7,454m), while the net assets of the central fund rose to £445m (£377m). The Corporation's net assets amounted to £280m (£279m). Total assets increased from £17,916m to £20,278m.

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Minister attacks Germany on EFA

By Daniel Green

MR JONATHAN AITKEN, the defence procurement minister, yesterday described as "a folly" proposals by Germany's defence minister, Mr Volker Rühe, to scrap the controversial European Fighter Aircraft (EFA) project and replace it with a cheaper aircraft.

Claims that a new fighter would save money were "nonsensical", said Mr Aitken. The development phase of the EFA project has been paid for and "it would be extraordinary for the coalition partners [UK, Germany, Italy and Spain] to throw away DM15bn."

Mr Aitken was responding to Mr Rühe's proposal on Tuesday that EFA should be replaced with a lighter fighter to save money and still provide jobs for the German aerospace industry. The plan is likely to be put to parties in Germany's ruling coalition next week.

Mr Aitken said the proposal had "horrified" the UK government.

He argued that a lighter aircraft would be ineffective against the latest Fulcrum and Flanker fighters being built in Russia and already being sold to other countries following the end of the cold war.

Furthermore, the uncertainty over EFA had come "at the worst possible moment" given the strains on European unity following the "no" vote in the Danish referendum on the Maastricht Treaty earlier this month.

Mr Rühe had "gone out on a limb" within his party, although the extent of his isolation was uncertain, said Mr Aitken. "There are strong pro-EFA factions within the principle parties and we have everything to play for."

In Britain, the EFA development programme employs about 10,000 people at British Aerospace, Rolls-Royce, Ferranti, GEC, Marconi Defence Systems and other companies.

EFA has been designed by two German-based industry consortia: the airframe grouping Eurofighter (BAe, MBB of Germany, Alenia of Italy and Casa of Spain) and the engine team Eurojet (Rolls-Royce, MTU of Germany, Fiat and the Spanish company ITP).

Hurd defends stance on European union

By Ralph Atkins

MR DOUGLAS Hurd, foreign secretary, faced hostile questioning from Tory Euro-sceptics yesterday as he sought to soothe opposition within the party to the Maastricht treaty.

Mr Hurd said the European Community had an opportunity to embody into its workings the principle of decisions being made at the lowest appropriate level.

Several MPs, however, remained unconvinced that a greater emphasis on "subsidiarity" would prevent centralisation of EC decision-making.

MPs will next week have their first opportunity since the Danish referendum on the Maastricht treaty to debate the European Community.

Yesterday Mr Hurd said Maastricht already incorporated the principle of subsidiarity and was a "prize" worth building on. Although the way ahead was not clear because of the uncertainty about Denmark, Mr Hurd stressed Britain did not want to be left out of EC decision-making. The prime minister would lose credibility if he backed away from Maastricht, he added.

He did not commit the government to backing a protocol to the treaty on subsidiarity but highlighted indications that the European Commission, and its president Mr Jacques Delors, were prepared to consider handing powers back to member countries. Discussions are expected on subsidiarity at the EC Lisbon summit this weekend.

Asked about Mr Delors' reappointment, Mr Hurd said no final decision had been taken but said that there was no obvious alternative.

Nissan UK tax charges thrown out of court

By Raymond Hughes,
Law Courts Correspondent

AN ALLEGATION that Mr Frank Shannon, former finance director of Nissan UK and two of the company's advisers conspired to cheat the Inland Revenue of £9m was thrown out by a magistrate yesterday.

After a 2½ day hearing, Miss Daphne Wickham, a stipendiary magistrate appointed by the Lord Chancellor's Department to deal with the case, decided that the Revenue had produced insufficient evidence to justify committing Mr Shannon and his co-defendants for trial at crown court.

Nissan UK is the former importer and distributer of Nissan cars in the UK. The Revenue had alleged at Worthing magistrates court that Mr Shannon, 58, of Brighton, Sussex, Mr Brian Laventure, 52, of Haslemere, Surrey, a partner in Grant Thornton, and Mr Gerald Compton, 46, of Leighton Buzzard, Bedfordshire, a partner in Kidsons Impey, had conspired to cheat the Revenue over stock relief claims.

After reviewing the evidence the magistrate discharged the three men and awarded them their costs out of funds.

Reporting restrictions were not lifted during the committal hearing, which began on Monday.

After the hearing Mr Shannon declined to comment but his solicitor, Mr David Kirk, of Stephenson Harwood, said "We are delighted."

Last month Mr Shannon and Mr Michael Hunt, 58, of Hove, Sussex, assistant managing director and deputy chairman of Nissan UK were sent by the Worthing court for trial at the Central Criminal Court (The Old Bailey), London, charged with cheating the Revenue out of £170m.

In that case it is alleged that the money found its way to Mr Shannon and Mr Hunt after false invoices were filed for freight payments.

Mr Shannon is on bail of £225,000 and Mr Hunt of £200,000.

MacGregor says railways will not ease road traffic

By Richard Tomkins,
Transport Correspondent

MR JOHN MacGregor, transport secretary, yesterday poured cold water on hopes that road traffic congestion could be eased by switching large amounts of passenger and freight traffic to rail.

In a speech to the Confederation of British Industry, he said: "We need to be realistic about the scale of the contribution which the railways can make to taking traffic off the roads."

Afterwards he said he was "a great believer" in switching traffic to rail. "But I am also a very strong believer in being practical and realistic, and not promising total pie-in-sky," he said.

"So the idea that we can get a massive switch from road to rail is, I think, unrealistic."

Mr MacGregor's remarks coincided with the publication of a survey showing that pro-rail policies pushed up passenger numbers by 20 per cent in Spain and by 7 per cent in the Netherlands during 1991, while passenger numbers in Britain fell by 3 per cent during the same period.

The survey, in the July edition of the London-based Railway *Gazette International* magazine, also shows that rail-borne freight traffic rose against the trend in Italy and Austria as a result of measures to switch trans-Alpine movements from road to rail.

British Rail, often regarded as leading the drive towards greater efficiency among European railways, comes out a poor 10th in a league table of productivity published in the magazine.

Assessing staff productivity by amount of traffic handled, Railway Gazette puts Swedish State Railways top of the league, followed by the national railways of Finland, France, the Netherlands, Switzerland and Spain.

Railway Gazette blames BR's poor performance on a combination of declining traffic volumes and an increase in staff numbers to cope with increased safety demands.

British Rail also performs badly in the European league table of timekeeping. On BR's Network SouthEast commuter operation, 91 per cent of trains arrive within five minutes of scheduled times. Some 98 per cent of suburban trains in the Ireland, Hungary and Poland achieved this level of punctuality, while in the Netherlands, 93 per cent of suburban trains arrive within four minutes of scheduled times.

In Britain, some 2.2 per cent of all passenger services are cancelled. In Ireland, the figure is 0.5 per cent; in Belgium and Sweden the figure is 0.2 per cent; and in the Netherlands and Norway, Railway Gazette says, cancellations are so rare that the railways do not bother to record statistics.

Britain in brief

Former MGN director denies any dishonesty

Mr Michael Stoney, a former senior executive in the Maxwell business empire, yesterday "vigorously denied" any dishonesty in relation to documents naming him as a signatory to more than £180m in "unusual" payments from Mirror Group Newspapers last year.

Mr Stoney, former group managing director (finance) of MGN, was named alongside Mr Kevin and Mr Ian Maxwell in the chairman's review issued with the group's 1991 accounts on Tuesday.

Mr Anthony Burton, his solicitor, said last night: "In so far as there is any inference in the reports about Mr Stoney, my client vigorously denies that his conduct in relation to all or any of these transactions was dishonest."

Freedom urged on overseas aid

Britain's government-controlled Commonwealth Development Corporation (CDC) provides a highly effective form of aid and should be given greater financial freedom to support projects in the developing world, according to the Monopolies and Mergers Commission report.

In a powerful endorsement of the role the CDC plays in Britain's aid policy, and in the way it is managed, the report says the CDC's funds should not be so vulnerable to Treasury cuts, and "should be free to expand its activities by financing more projects and investing at a greater rate".

Delay hits Ulster talks

A fresh delay has hit "round-table" talks on Northern Ireland's political future, and looks set to prevent formal discussions taking place this week.

British and Irish ministers have failed to agree a date for a bilateral meeting, with local parties attending as observers, which had been assumed to be the next stage of the talks' programme.

Unions lose members

The once mighty National Union of Mineworkers was last year overtaken in size by Equity, the actors' union, as affiliates to the Trades Union Congress saw their membership decline to the lowest level since 1947.

The NUM's decline to 44,352 at the end of last year compares with 200,000 during the 1984-85 miners' strike. Membership of Equity has risen from 32,525 in 1984 to 44,379.

Figures published by the TUC show that union membership fell last year by 440,000 to 7.76m, out of a total workforce of more than 24m.

Samsung plans investment

Korean-owned Samsung Electronics has announced a £9m investment, to make colour television at its Billingham plant, north-east England, where it makes microwaves and video recorders. The government is giving £3m in Regional Selective Assistance towards the 270-job expansion.

BBC agrees Japanese deal

BBC World Service Television plans to enter the Japanese market with its 24-hours news and information service before the end of this year. The corporation has reached agreement with Nissho Iwai, the large Japanese trading company, to set up a joint venture company to run the service.

US semesters considered

A review of the academic year, which could lead to the widespread adoption of the US semester system, has been set up by the bodies representing higher education in England and Wales. With ambitious government targets for growth in student numbers over the next decade, universities and polytechnics are concerned that the traditional three-term teaching year makes inadequate use of capital.

Fall in British output less than feared

By Emma Tucker,
Economics Staff

The fall in UK output in the first three months of the year was marginally less than originally reported, according to figures out yesterday.

Revised data figures from the Central Statistical Office showed that gross domestic product (GDP) fell by 0.5 per cent in the first three months of this year, giving a year on year decline of 1.5 per cent. This was slightly better than the 0.6 per cent first quarter fall reported last month.

Excluding oil and gas extraction, GDP fell by 0.3 per cent in the first quarter, compared with a provisional estimate of 0.4 per cent. The year on year rate of decline was 1.6 per cent.

A slowdown in the rate of destocking meant that domestic demand rose by 0.2 per cent in the first three months of the year - the third consecutive quarterly rise. The figures show:

- Consumer expenditure fell 0.7 per cent on the last quarter of 1991 and was 1.8 per cent lower than a year ago. The biggest falls in this component of GDP were in cars – down 5.7 per cent.
- Government consumption fell 1.1 per cent on the previous quarter but was 0.6 per cent up on a year ago.
- Fixed investment increased by 1.4 per cent quarter on quarter but was 2.2 per cent down on a year ago.

A breakdown of GDP analysed by output showed that the production of the service industries fell by 0.3 per cent on the previous quarter and by 0.9 per cent on the same quarter a year earlier.

Output of the construction industries continued to fall but at a slower pace. In the first quarter, output was down 0.6 per cent on the previous quarter and 7.1 per cent on a year ago.

Paul Cheeseright visits two young companies in central England which have experienced widely different effects of the recession

Bleak outlook for window frame maker

MIDLAND Joinery, with gross liabilities of £3m, gave up the fight against recession in April. For more than two years it had been struggling to keep its balance on a skid pad of falling sales and high debts. Now Mr Michael McLoughlin, the receiver, of KPMG Peat Marwick in Nottingham, is looking for a buyer.

"It's easy being a financial pundit retrospectively," Mr McLoughlin said. Nevertheless, the management of Midland Joinery, a Burton-on-Trent window frame manufacturer, was hopelessly unlucky with its timing.

The company was founded in 1922, and in 1988 Mr John Young and Mr Frank Leyland led a management buy-out *from Hunter Timber, part of* Wickes Group, for £3m.

Lazard Venture Funds Management put together a package of £1.2m of equity; directors and employees put money in. Bank of Scotland provided debt finance of £1.5m and Lazards lent a further £300,000.

Four years ago it looked sound enough, even if expensive. "When we first went in," said Mr Leyland, "we thought the funds were more than adequate; although the gearing was high, we could ride out a short-term recession." By that he meant up to two years.'

Four years ago even the most pessimistic were not forecasting the severity of the recession. Things started to go wrong within a year. "The marketplace began to shrink," Mr Leyland said. "The value of the assets goes down but the borrowing doesn't go away," said Mr McLoughlin.

Competition grew fiercer. The response of Midland Joinery was to try "to increase throughput", Mr Leyland said. It hired more sales representatives and sought to make a bigger business of a stair manufacture sideline, but found that market overcrowded too.

Turnover grew – £3.4m in 1989, £4.1m in 1990, £4.56m in 1991. But there were no profits. Midland Joinery was losing money even before it attempted to pay its debt charges; operating losses in 1990 were £352,000 and last *year they were £330,000.*

Although debt had already been restructured once, by the end of last year Midland Joinery was desperate. The search started for a merger, for a new injection of equity, for the sale of the company: in short, for a rescue.

The search foundered. The directors asked for the appointment of a receiver. Of the original executive directors, only Mr Leyland remains. He awaits what Mr McLoughlin can provide, but as customers drift away, the chances of selling Midland as a going concern diminish, and eight of the company's 143 employees have been made redundant.

Chicken comes before nest egg at poultry plant

PENNY SMITH is not a pin-striped finance director. At Perry Poultry plant, the finance director wears white boots, white overall and white helmet. She washes her hands, disinfects her boots when she enters the plant; she does the same when she leaves.

Hygiene is one element of quality in the chicken business. And Perry Poultry cuts chickens. It buys dead, plucked and gutted chickens. It cuts, portions and packs them. It marinates them - tandoori flavour so far, garlic soon.

Perry Poultry is a small player in a crowded industry, operating out of Bilston in the heart of the Black Country, that part of central England better known for metal pro*cessing than food processing.*

The Black Country metal processors are in recession, but Perry Poultry has been expanding since August 1989. Food processing is less prone to the troughs of the economic cycle than heavy industry, but it too faces hazards.

"Orders are fairly easy to get if you are a conforming plant [meeting European Community standards] with a good reputation. To make a profit is where the skill comes in," said Mr *Alistair Ross, chairman of* Perry Poultry.

The problem is that the profit margin is narrow. Perry Poultry would like to make four per cent. But usually it makes two or three. So the line between success and failure is very fine.

"Our customers are looking for lower prices all the time but we don't see any raw material costs coming down. There's the squeeze," explained Mrs Smith.

So far, Perry Poultry has carved its way through the conflicting pressures. It lost £35,000 in its first year but in 1990 it had pre-tax profits of £188,000 on a turnover of £5.27m. In 1991 and this year it expects pre-tax profits of about £400,000 and a turnover of £15m.

But the company has also had to borrow. It used bank finance for its early development but last year preferred to expand using equity finance. It had a cash injection of £250,000 from 3I, the venture capital group, in exchange for 15 per cent of the equity. Now Perry Poultry uses TSB, its banker, for working capital only.

Faced with harsh interest terms – money at 2.5 percentage points over base rate compared with 1.5 in the 1980s – the directors at Perry Poultry asked to extend their loan guarantees.

But its biggest overhead is labour costs. The company *started with 30 employees, now* it has 270 on basic wages of up to £160 a week. But there is little pressure for higher wages. Unemployment in Bilston is too high for that.

Complaints of sexual bias at work rise by 40%

By Diane Summers,
Labour Staff

COMPLAINTS about sex discrimination in the workplace increased by 40 per cent last year, Britain's Equal Opportunities Commission said yesterday.

Releasing its annual report the commission said the increase was due to the continued rise in the number of women going out to work, increased expectations among younger women and the higher profile of the commission.

Ms Joanna Foster, who chairs the commission, said the recession had also had a part to play in the rise in complaints. "Organisations are get*ting leaner and some are get*ting meaner," she said.

There were more than 9,000 complaints about employment issues last year, compared with 6,500 in 1990. The main areas of complaint involved recruitment, pregnancy-related matters, and generally less favourable terms of employment.

Sexual harassment complaints were up 35 per cent from 317 to 427. Some complaints about sexual harassment in service delivery, rather than employment, had also been received. There is no case law on whether the Sex Discrimination Act covers services and the commission is backing a test case involving a woman learner driver who alleges sexual harassment by her driving instructor.

Ms Foster said the figures showed that sex discrimination was still a big problem in the workplace. "Yet while expectations of fair treatment are higher than ever before, redress is more difficult to obtain because of the complexity and cost of taking legal action," she said.

Ms Foster said that if the government was serious about its Citizens' Charter it needed to consider amendments put forward by the commission aimed at strengthening and simplifying the equality laws.

A simple start could be made by revising tribunal and court procedures to remove barriers *causing delays,* Ms Foster added. The average length of time taken for a case to reach employment appeal tribunals is two years in England and Wales.

MANAGEMENT: MARKETING AND ADVERTISING

French food retailers have been fighting on price. Now they are finding that the size of their companies helps too. **Alice Rawsthorn** reports

Casino raises the stakes

For the next few weeks, an army of bankers, brokers and lawyers will be installed at Casino, one of France's largest food retailing groups, to put the finishing touches to its acquisition of the Rallye chain of hypermarkets and supermarkets.

For Casino, the addition of the Rallye stores offers a much needed opportunity to achieve the critical mass that its own hypermarkets and supermarkets need to survive in the increasingly competitive world of French food retailing. For the rest of the sector, the Casino deal will make life more competitive than ever.

At first glance, the problems of French food retailers look much the same as those of their counterparts in other European economies. The French market is mature and for the past year or so the hypermarkets and supermarkets have been engaged in a ferocious price war.

Meanwhile the concentration of ownership within European food manufacturing has eroded the retailers' bargaining power with their suppliers. The growth of groups such as France's BSN, the Anglo-Dutch Unilever and Nestlé of Switzerland has put the retailers in a weaker negotiating position.

But the French food retailers also face problems of their own. They are threatened by the rapid expansion of German discount outlets, notably Aldi and Norma, in France. Moreover, the French companies' margins, at an average of 1.5 per cent, are among the lowest in Europe.

So far, the French food retailers have adopted a dual response to these issues. First, they have accelerated their expansion into other countries to compensate for lack of growth in their own. The large hypermarket chains, Carrefour and Promodès, have successfully diversified into southern Europe and rather less successfully into the US. Some smaller supermarket groups, such as Docks de France, have followed them into Spain.

Meanwhile, the retailers are confronting increasingly powerful suppliers by expanding their own businesses to improve their bargaining position. The five largest players in French food retailing – Carrefour, Casino and Promodès, together with Leclerc and Intermarché, the associations of independents – increased their share of retail sales from 16 to 20.6 per cent in the five years to 1990 according to Insee, the state statistics institute.

This expansion is continuing. Carrefour last year bought the Euromarché and Montlaur chains. As Michel Bon, its chairman, says: "Volume is the key to success in our business". Casino, which was in danger of being squeezed out of the market with turnover of just FFr42bn (£4.26bn) compared with Carrefour's FFr100bn, is following suit with the Rallye deal. Thanks to Rallye, Casino will gain an extra FFr24bn of sales.

These deals are creating problems for the rest of the retail sector. "The level of sales needed for a company to remain competitive is increasing all the time," said one analyst.

After the Casino-Rallye deal, there will be three French hypermarket chains with annual sales over FFr65bn – Carrefour, Promodès and Casino. Christiane Thorne, European retailing analyst at Phillips & Drew in London, argues that that this will intensify the pressure on the other large players, Auchan and Cora.

But size alone is not enough. The French food retailers have yet to complete the reorganisation of their businesses so they can take advantage of their new bulk buying power. Carrefour is introducing a more centralised structure so that it can make the most of its size.

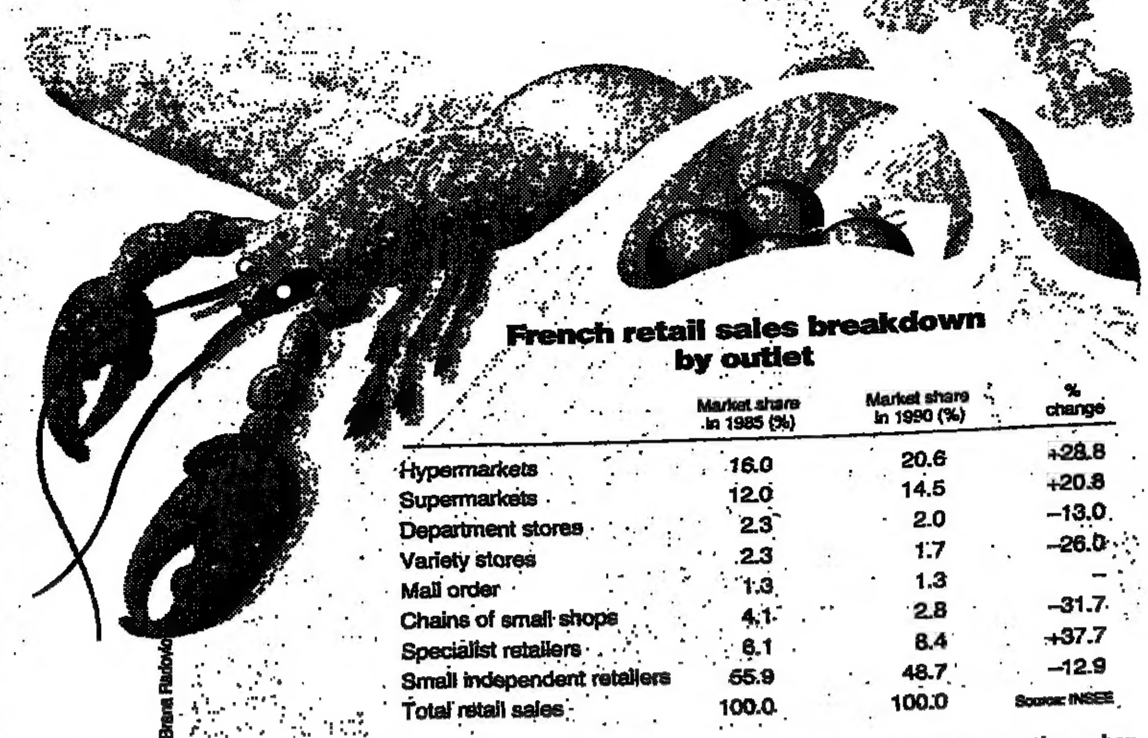
Promodès is going one step further. It already has a fairly centralised buying operation in France and is now co-ordinating its activities across Europe. This spring, it opened a new international buying office in Switzerland to negotiate with its multinational suppliers.

The bulk of Promodès' buying is still conducted on a national basis. Despite the internationalisation of food manufacturing, there are still huge differences in taste from country to country so there are relatively few truly international brands. But the Swiss operation does have the additional advantage of helping Promodès in the new markets, where its local competitors have been putting pressure on their suppliers to boycott the French insurgent.

At the same time, the French food retailers are also trying to increase their historically low margins by increasing their own-label portfolios – where margins are generally higher – and by investing in operational improvements such as laser scanning, which ought to be operative in all French hypermarkets by the end of next year.

These initiatives will be hampered by the continuing expansion of the German discounters, which opened 60 new outlets in France last year alone, bringing the total to 144. Some French companies have retaliated by expanding their own cut-price chains, notably Carrefour with Ed l'Epicier. But the German discounters still pose a serious threat, particularly to the urban supermarkets under the Leclerc and Intermarché umbrellas.

Casino, aided and abetted by its army of advisers, may have won one round in the fight for the French food market thanks to the Rallye deal, but the real battle has only just begun.



French retail sales breakdown by outlet

	Market share in 1985 (%)	Market share in 1990 (%)	% change
Hypermarkets	16.0	20.6	+28.8
Supermarkets	12.0	14.5	+20.8
Department stores	2.3	2.0	-13.0
Variety stores	2.3	1.7	-26.0
Mail order	1.3	1.3	-
Chains of small shops	4.1	2.8	-31.7
Specialist retailers	6.1	8.4	+37.7
Small independent retailers	55.9	48.7	-12.9
Total retail sales	100.0	100.0	

Source: INSEE

Ringing in change at the supermarket checkout

John Thornhill says that the days of clipping money-off coupons are over

The use of coupons as a marketing tool has always been regarded as fine in theory; rather less than perfect in practice. The trouble is that they are fiddly, costly and imprecise, often hitting the wrong type of customer at the wrong time in the wrong place.

Magazine advertisements containing coupons are widely regarded as offering a bluderbuss approach to marketing when more closely targeted methods are called for.

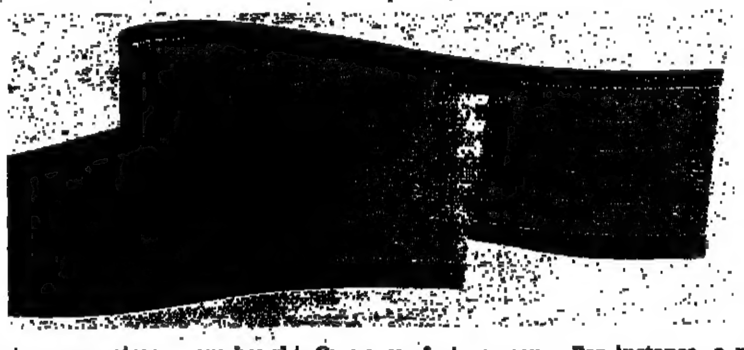
A recent unseemly squabble among UK food retailers – when Tesco offered to redeem everyone else's coupons, prompting a spoiling campaign from its rivals – has also tarnished the coupon's image, even though that battle looks as though it is drawing to a close.

But several retailers are now experimenting with better ways of issuing coupons. In September, Superdrug will install up to 10 "instant coupon machines" on the shelves of its top 160 drugstores, providing shoppers with the opportunity immediately to redeem promotional offers on various products. This is seen as a powerful means of influencing shoppers at the crucial moment of decision.

Others retailers are exploring ways to utilise the mass of marketing knowledge that they gather from their electronic point of sale (Epos) equipment at their check-outs to produce electronic coupons. If successful, these systems could revolutionise the coupon industry, delivering a highly potent marketing weapon for both brand managers and retailers alike.

Next month, Asda, the UK's fourth biggest grocery chain, is launching a trial of an electronic coupon system at five stores using technology licensed from Catalina Marketing, a nine-year-old US company which was floated on the New York Stock Exchange in March.

The Coupon Saver system is a small machine next to each supermarket till which is linked into the store's Epos network and instantaneously monitors purchases. Barcodes on specified products trigger the issue of coupons which are then handed to the shopper along with their bill.



"It is like having a brand manager standing at every customer's shoulder giving a coupon to all those people they want to attract," says John Eustace, Catalina's UK licence holder. The beauty of the system, he suggests, is its flexibility. For example, brand managers can simply attempt to "lock in" customers by issuing money-off coupons whenever their products are bought. Or a manufacturer can encourage a shopper to switch brands by issuing a coupon for their brand, whenever one of their rivals' products are scanned.

Retailers can encourage return custom by issuing loyalty coupons for frequent shoppers or entice them to spend more by issuing coupons for bigger packs or multi-buys. Coupon Saver can also be used to support advertising campaigns or product launches.

It can even be used in conjunction with a personalised store card to issue "reminder" coupons to individual customers. For instance, a razor blade manufacturer whose products are on average bought every two months could issue a coupon to an individual shopper seven weeks after they made their last purchase, lessening the likelihood that they will lose it.

Catalina pays for the installation of the machines and sells the "rights" to issue coupons in about 400 different product categories to the retailer and various brand managers.

It costs upwards of £10,000 to install the system in a store with 25 check-outs. Catalina's UK customers will initially be charged at a rate of about £75 for every thousand coupons issued.

Catalina's coupon system is already operated by 32 retailers in 5,000 stores across North America. Its machines read 64m shopping baskets a week – 40 per cent of the total – and are used by 300 brand manufacturers.

A study by the US Food Marketing Institute last year suggested that in spite of their prevalence, the applications of such front-end electronic marketing systems were still in their infancy.

But the report also raised concerns about their long-term effectiveness, consumer privacy, data ownership and fair trade practices.

Similar systems are now being touted around the globe, especially in Europe and Australasia. But whether they will have such an *impact overseas is open to doubt.*

The structure of the UK food retailing market, in particular, is very different from that of the US on many levels.

In North America, for instance, IBM is the computer standard for most retailers. Although Asda operates the same IBM system in the UK, Tesco uses Siemens-Nixdorf equipment while J. Sainsbury uses ICL, complicating the design of universal systems.

The predominance of retailers' own brand products in the UK may also muddy the waters. In many categories, the brand managers' biggest rivals are the retailers themselves and there is clearly a potential conflict of interest in promoting individual brands.

But the rival food retailers will be watching Asda's experiment with interest. If it is a success, they are likely to move quickly to install their own systems.

Philip Manchester continues a series on getting the most out of software by looking at how Lay & Wheeler negotiated the transfer to a new computerised system

Microchips go well with wine

COMPANY SNAPSHOT

Founded in 1854 by an ancestor of Richard Wheeler, the current chairman and managing director, Colchester wine merchant Lay & Wheeler is one of the largest independent wine merchants in the UK.

Nature of business: The company imports and distributes more than 1,000 fine wines from around the world. It supplies restaurants and hotels in addition to operating two retail outlets and one wholesale outlet in Colchester.

Turnover: £17m a year.

Employees: 120.

TECHNOLOGY FILE

Lay & Wheeler's applications software was originally developed for IMP hardware and moved to the current ICL system last year. This was possible because the applications software was developed for the 'open' Unix operating system.

Software:
Standard accounting "modules" from Kerridge Computers' range of packages form the backbone of Lay & Wheeler's custom-built sales order processing, point-of-sale and stock control applications. The software was installed in phases between November 1988 and October 1989. The sales order processing system is standard across all of Lay & Wheeler's selling operations and the stock control system handles up to 5,000 product lines.

Hardware:
The system is based on an ICL DRS 6000 computer running Unix System V, release 4.0. Access to the system is either through standard terminals or via a standard PC, with a total of 55 screens spread across four locations. Network connections are through British Telecom Kilostream lines. The standard PCs located at the selling outlets can run a skeleton point of sale system in the event of a network failure.

Costs: The total cost of software and hardware is £250,000 on a lease-purchase arrangement. Annual costs include £11,000 for software maintenance and £22,000 for hardware maintenance.

Selling wine seems straightforward. You set up your shop, you place some attractive bottles in the window and wait for the eager buyers to hand over the cash.

Wine, however, can be sold in a variety of ways. In addition to the obvious retail premises off the high street, traditional wine merchants sell wholesale to restaurants and hotels. They sell wine "in bond" or "en primeur" to private customers. They might operate a wine supermarket or a cash-and-carry store.

Lay & Wheeler, an old, established wine merchant based in Colchester, Essex, uses all of these methods to sell wines and other beverages. Choosing a new computer system in 1988, Lay & Wheeler wanted one to serve all its outlets and provide integrated information systems for its management.

"We were operating a 19th century computer system for a 21st century operation," says Ross Cowie, Lay & Wheeler's financial director. "Although we sell our products in several different ways, they are inter-related. The fine wines side supports both the wholesale operation and the mail order service. The retail outlets sell a range of drinks products by the bottle and by the case. And, if we are holding a wine tasting, it might be for both retail and wholesale customers."

In late 1987, Lay & Wheeler's management looked at its operations with the aim of supporting them with a new computer system. Although based in Colchester, Lay & Wheeler distributes wines, spirits and beers throughout south east England and runs a national mail order operation.

The company has two retail premises in Colchester – a small shop in the centre of the town, which was established in 1862, and a wine "supermarket" on the outskirts. It also operates a wholesale "cash-and-carry" warehouse next door to the wine supermarket.

The new computer system had to cope with these different outlets and, as staff are moved between operations, had to present a common "interface".

Lay & Wheeler needed to replace an ageing system running on a Burroughs B90 computer with a system to control order processing, distribution and invoicing, handle stock movements, and produce good management information. The Burroughs system processed the mail-order and the wholesale sales invoicing and distribution operation. It could not handle stock movements – nor did it offer any useful management information.

Rather than buy a computer and try to fit the software to the job, Cowie wanted to find the right software from the outset.

SOFTWARE AT WORK

Selecting a new system can be fraught enough – even for experienced companies. Lay & Wheeler took a cautious approach. Cowie and his colleagues worked out a specification which covered the business aspects of the new system.

Cowie called in consultants Coopers & Lybrand to ensure he looked at the right kind of company to build and install the system.

Cowie's attitude to the consultant was pragmatic, however. Consultants are expensive and, once Coopers and Lybrand's staff had done their job, Cowie saw no further need for their services.

With Coopers and Lybrand's help, Cowie drew up a shortlist.

"We shortlisted four suppliers and looked at their proposals carefully. We chose Kerridge Computers because it seemed to have the right attitude and fitted in with our way of working."

Cowie signed the contract with Kerridge in May 1988 with the aim of moving across to the new system by October at the start of the company's financial year.

The software used to create Lay & Wheeler's system was drawn from a mixture of standard components and custom-written programs. Kerridge supplied a suite of standard applications modules for accounting functions such as sales ledger, management accounts and cashbook.

The sales order processing system – the all-important front-end of Lay & Wheeler's operations – had to be built from scratch.

A main reason was the complex pricing and discount structure which Lay & Wheeler uses. "We needed the ability to go to as many as 72 different prices for the same wine – 36 by bottle and 36 by case," says Cowie.

The main installation problems came from the custom-built parts of the system and, although it was close to being ready for the October start date, Cowie was not satisfied.

Problems with the pricing of cases and calculation of deposits delayed the transfer: "About 10 days before the target date, I decided we would have to wait another month. It was a bit of a risk going live in November – it is our busiest time. But we wanted to get it right." Cowie says the delay only caused minor problems as far as the annual accounts were concerned.

Once the central accounts were installed and Cowie was happy with them, Lay & Wheeler phased in the other parts of the system through 1989. These included the point-of sale systems for the shop, the wine supermarket and the cash-and-carry warehouse.

In October 1989, Lay & Wheeler embarked on its "first serious effort in stock control".

Lay & Wheeler carries about 3,500 current product lines and may have as many as 5,000 recorded in the system. Each product has an eight-character code which works like an engineering part number. The code identifies the type of product, the vintage, and the size.

"Our first effort failed, not because of the software but because of our own systems. The main problem was coping with internal movements of stock."

The fine-tuning has continued during the last two and half years and Cowie is now satisfied that the stock system works well: "We now get good management information – reports for the buying department and lower stocks held. We have reduced stockholding by about £500,000 and, at our last stock take we found only two mistakes," he says.

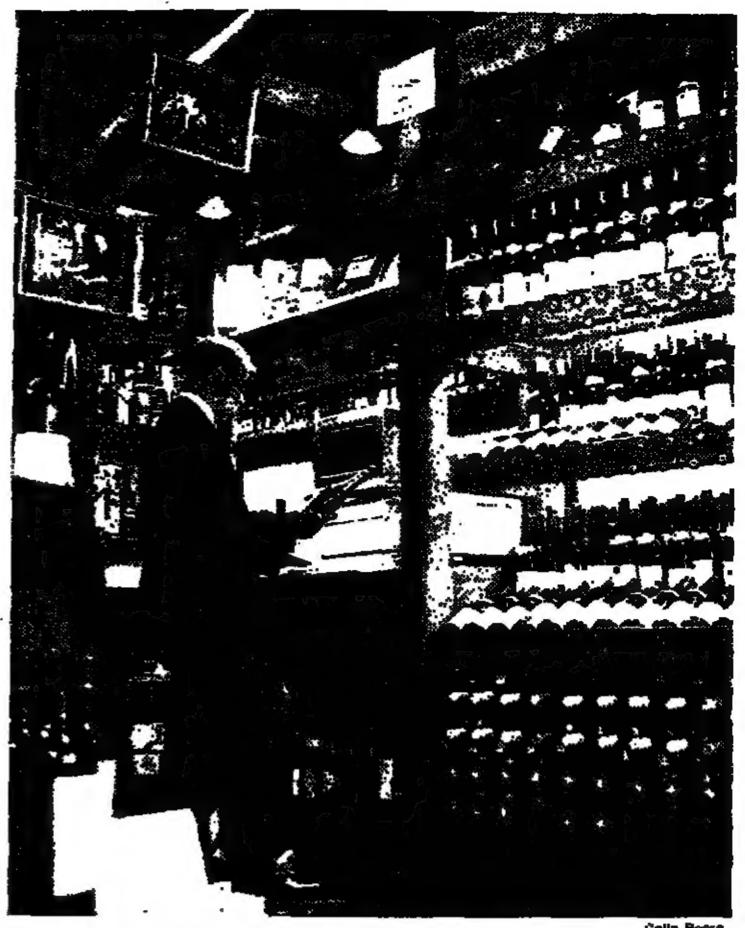
Cowie admits that the introduction of the new system has been hard work. He also admits that he "never really thought about the user", especially with the product coding system and the problems of entering it at the point of sale.

Kerridge has got round some these problems by incorporating a search program which can find products by name.

Lay & Wheeler's story is a classic of software development. The definition of the business problem, the selection of the supplier and the installation and fine-tuning of the application software all have a familiar ring to them.

There is one difference, however. Lay & Wheeler's system runs on the Unix operating system and the company is now on its second hardware platform.

The applications software was moved to the new hardware last August with few problems, proving that the principle of open systems – that you can move software easily – really works.



Colin Beere

User friendly cellar: Russel Ford, Lay and Wheeler manager

BUZZWORDS

EN PRIMEUR is a form of wine 'futures'. Wine is bought while still in the barrel for subsequent delivery – usually after two years.

IN BOND wine is shipped from the vineyard and held in a bonded warehouse, allowing the duty and tax payments to be deferred until final delivery.

CONSULTANT'S CRITIQUE

The effective use of consultants is surprisingly rare. Many companies treat their advisers as if they were junior clerks and get them to perform tasks that they could easily do themselves. Few consultants complain as they are paid by the hour in most cases rather than by the job. Cowie at Lay & Wheeler demonstrated how to get full value out of the experience that consultants bring. He employed Coopers & Lybrand to advise, but released them once the advice had been taken. As it happens, the recommendation was identical to his own empirical research. However, he now had confidence that the choice was rational since it was confirmed by an outsider.

So often a solution which is logical for the computer is unusable by humans. If not controlled, the computer rapidly becomes the master rather than the servant. Eight character codes can be neat and tidy but wines are rarely called "ZX456GF". Any system which relies on short codes must provide help for the poor user. It must be considered a black mark against Kerridge that it ignored this obvious problem in the first implementation. Modern database systems all incorporate the sort of name finding required as a standard part of the package. However, they have learned from the mistake and adapted the system to a more human-centred approach. It is always important to ensure that any system offers a path for growth. The two common options are to choose a manufacturer with a wide range of computing power available or to develop the system in a portable fashion. The advantage of open systems is their ability to switch to other hardware. Lay & Wheeler has demonstrated that it can be done in reality, not just in the salesman's patter.

Lay & Wheeler suffered some disruption and the benefits have not come as quickly as expected. However, this is balanced by the reduced stockholding (saving £50,000 in interest charges alone) and better management information for the future.

Kevin Grumball

The author is a consultant at Software Design and Construction, of Milton Keynes

FT LAW REPORTS

Intervention notice is valid

REGINA v LAUTRO EX PARTE ROSS
Court of Appeal (Lord Justice Glidewell, Lord Justice Stocker and Lord Justice McCowan): June 11 1992

AN INTERVENTION notice served by a self-regulating organisation on a member is not invalidated by failure to give prejudicially-affected non-members an opportunity to make representations as to why it should not be served. *But where such an opportunity is not given the non-member should, and in the case of Lautro now does, have a right to apply to have the decision to serve the notice set aside or to appeal.*

The Court of Appeal so held when dismissing an appeal by Mr David Hugh Ross, sole director of the Winchester Group plc, from a judgment of the Divisional Court of the Queen's Bench Division *(FT, July 17 1991)* refusing his application for judicial review of a decision by the Life Assurance Unit Trust Regulatory Organisation Ltd (Lautro) to issue an intervention notice affecting Winchester.

LORD JUSTICE GLIDEWELL said that Lautro was a self-regulating organisation (SRO), recognised under the Financial Services Act 1986.

Norwich Union was authorised under the Act to carry on investment business, but was a member of and subject to control under Lautro's rules. Winchester, as an appointed representative of Norwich Union, was exempt from the requirement of authorisation.

Lautro's rules, current in October 1990, empowered it to prohibit a member from entering into transactions or from soliciting or carrying on business. That power of intervention was exercisable by notice to the member, stating why intervention appeared desirable to Lautro for the protection of investors.

Rule 7.3(12) provided that where the reasons related to matters which referred to a person identified in the notice other than the member, and were in Lautro's opinion prejudicial to that person, Lautro "shall . . . serve a copy of the notice on that person".

A member of Lautro on whom an intervention notice was served could apply to set it aside or appeal. A person other than a member on whom a copy was served had no prior opportunity of making representations as to why the notice should not be issued, and was given no right under the rules to set it aside or to appeal.

In October 1990, Lautro investigated Winchester's business. In its opinion, there was evidence to show there had been serious breaches of the Lautro rules in respect of business conducted for Norwich Union by Winchester. It resolved to exercise its intervention powers.

On October 31, an intervention notice was served on Norwich Union and copies were served on Winchester. On November 1, Norwich Union suspended Winchester as its appointed representative.

Winchester sought a meeting with Lautro which took place on November 6. It complained it had had no opportunity to make representations, and lacked particulars of the allegations against it. It said the allegations in the intervention notice were unfounded.

Lautro later accepted that some of the facts were not correct and that some of the allegations must be qualified, but decided intervention remained necessary and desirable in the interests of investors.

On January 11 1991, Norwich gave three months' notice of termination of its agency agreement with Winchester.

Winchester was only entitled to conduct investment business as Norwich's appointed representative. Once that position was suspended, and then terminated, it was unable to conduct any investment business.

The Divisional Court refused an application by Winchester for judicial review of the intervention notice.

On the appeal, the major issue was whether Lautro's failure to give Winchester an opportunity to make representations before service invalidated the notice.

Mr Collins for Winchester submitted first that in exercising its functions as a recognised SRO, Lautro was under a duty to act in accordance with natural justice – to act fairly in the circumstances.

There was no doubt that Lautro was obliged to exercise its powers fairly in relation to members, at Common Law and by statute (see *Lloyd v McMahon [1987] AC 625,702* and paragraph 2 of Schedule 2 to the 1986 Act).

Second, Mr Collins submitted that duty was owed not merely to Lautro members, but also to persons who would be prejudicially affected by its decisions.

The issue arose because of the self-regulatory structure which had been created under the Act.

A recognised SRO controlled those authorised persons who were its members. The authorised persons controlled their appointed representatives. Lautro decisions, particularly in relation to intervention notices, would frequently have a very considerable effect on appointed representatives.

When a decision-making body was called on to reach a decision arising out of the relationship between two persons only one of whom was directly under its control, and it was apparent that the decision would be likely to affect the second person adversely, then as a general proposition the decision-making body did owe some duty of fairness to that second person, which in appropriate circumstances might well include a duty to allow him to make representations.

That would particularly be the case when the adverse effect was on the second person's livelihood or ability to earn.

Rule 7.3(12) defined with some clarity the persons who should be served, and to whom in appropriate circumstances Lautro owed a general duty to act fairly.

Third, Mr Collins submitted that fairness required Winchester should be given the opportunity to make representations before the decision to issue the notice was reached.

The decision whether to exercise the power of intervention, and to serve a notice before hearing the persons to whom it was directed or whom it would affect, must be balanced against what Lautro regarded as the interests of investors. In that sense it would be moved by considerations similar to those which affected a court deciding whether to grant an injunction *ex parte*.

If a decision-making body was to exercise intervention powers without giving the opportunity to make representations beforehand, its procedures should provide that those who might otherwise expect to have been allowed to make representations should at least be allowed to make immediate application to set the decision aside and appeal.

At the relevant time, rule 7.3 gave no such rights to non-members.

In February 1992, however, the rules were amended to give non-members served with an intervention notice the right to appeal (see new rules 7.28 and 7.3(12)). When the intervention notice was served, Lautro's rules were defective in not giving a right of appeal.

While the power to decide to serve an intervention notice without first hearing representations from persons affected was not in itself so unfair as to invalidate the notice, a lack of any means by which the person could immediately thereafter challenge the notice was a breach of the requirements of fairness which the law should imply.

If Lautro did not afford a non-member served in accordance with rule 7.3(12) the opportunity to apply to rescind the notice, and/or to appeal, then the lack of such remedies would be unfair and the procedure unlawful.

However, Mr Collins had expressly limited his challenge to Lautro's failure to allow the making of representations before service of the notice. That of itself did not invalidate the notice.

Although at the relevant time Lautro's rules, and thus its procedure, were defective in the respects outlined, it was not required by law to afford to Winchester the opportunity to make representations as to why a notice should not be served before deciding whether or not to serve it.

The appeal was dismissed. Their Lordships agreed.

For Winchester: Andrew Collins QC and Cherie Booth (Manches & Co).

For Lautro: Michael Beloff QC and Richard Gordon (Slaughter and May).

Rachel Davies
Barrister

PEOPLE

Salaryman for West Midlands

The West Midlands Development Agency has a new representative in Japan – a former salaryman from Mitsubishi – who had, until this week, never been to the West Midlands.

Yasuhide Shigematsu, 54, says he knew the region "by reputation" and feels that "there is more due to happen in Europe than in North America as far as Japanese companies are concerned. I wanted to be part of that," he adds. He is currently spending two weeks finding his way around the place.

To date, the West Midlands has attracted around 60 Japanese companies employing over 8,000 people, as well as seven of the country's banks that have recently set up representative offices. The agency contends that today's inward investment decisions are affected less by recession in the UK than by Japanese companies' own domestic problems, however, which means the Japanese are significantly delaying all decisions about overseas expansion. One of Shigematsu's tasks while he is in Britain is to make recommendations as to whether his future marketing strategy should adapt to this change by concentrating more heavily on specific sectors – in contrast to the more generalised approach that has been applied until now.

Shigematsu comes from the machinery division of Mitsubishi; outside Japan he worked on the sales and marketing side in both the US and South Africa. He also points out that he has been involved in setting up two joint ventures, one in China and one in Taiwan. He takes over from Ichiro Fujita, a banker with fluent English who had been promoting the region to the Japanese for the past four years.

JEFFERSON SMURFIT Group, the Irish paper, packaging and financial services company, has announced another management reshuffle involving the ubiquitous Smurfit clan.

Dermot Smurfit, joint deputy chairman, and younger brother of group chairman Michael Smurfit, is to become chairman and chief executive of Smurfit Continental Europe. He will have responsibility over France, Germany, Italy, the Netherlands and Spain. He replaces Ray Miezelis who retired earlier this year for personal reasons. The continental businesses had a turnover last year of I£400m, generated operating profits of I£39.8m and employ about 3,850 people.

Dermot Smurfit is replaced as chairman and chief executive of Smurfit UK by Patrick (Paddy) Wright (above). He is a past president of the Confederation of Irish Industry. Michael Smurfit's son Anthony who is chief executive of the UK print and packaging division will report to him. The UK operations had a turnover last year of about I£193m and made profits of I£13.6m.

Michael Latham, the former Tory MP for Rutland and Melton who retired at the last election, is returning to his old stable, the Building Employers Confederation (BEC), as public affairs consultant to it and its private house-building subsidiary the House-Builders Federation.

He comes at the invitation of Ian Deslandes, acting director general of the BEC. The two have known each other since the mid-1960s when they were working at the Conservative research department. Latham became the director of the HBF between 1971 and 1973, and, before winning Melton in February 1974, brought in Deslandes as his successor.

Deslandes is now pleased to be employing the services – and political contacts – of 49-year-old Latham about three days a week. Since recession in the construction industry is BEC's main preoccupation at present, one of his first tasks will be to help persuade the government to prolong the stamp duty "holiday" on house purchases beyond August.

Latham, who says his other main interest apart from the construction industry is "reconciling Christian and Jewish interests" is now also the director of the Council of Christians & Jews. While he felt that 18 years in the Commons was enough, he mentions that he is considering standing for the European parliament in two years' time.

■ DURACELL International, the US alkaline battery maker which has thrived since being taken private in a leveraged buy-out four years ago, has appointed a new head of its substantial European operations.

He is Christophe Ripert, who was previously responsible for Duracell's operational activities in France, Spain, Portugal, the Benelux countries and Switzerland. He will move from Paris to the company's European headquarters in Crawley in the UK.

Ripert's predecessor, Peter Schatz, has assumed responsibility for managing Duracell's business alliance with Toshiba Battery of Japan and Varta Batterien of Germany to develop a new generation of nickel metal hydride rechargeable batteries.

Ripert will inherit a sensitive post at Crawley. The company announced in January that it would progressively wind down its components manufacturing plant in the town by August shedding 320 jobs.

■ John Hignett, currently md finance of GLAXO HOLDINGS, is appointed md corporate funds, and John Coombe is appointed md finance, also on the board.

■ Michael Hammond, md of Victoria Wine, has been appointed to the board of ALLIED-LYONS RETAILING.

■ Wolfgang Nitschke (above right) has been appointed general manager of the London Wilshire Hotel. Since 1990, he has been vice-president Europe, for Regent International Hotels, which will manage the new hotel. John Waring (above left), former head of personnel at The Dorchester, has been appointed director of personnel.

■ Ralph Stevens, md of Greenhill Chemical Products, is also appointed md of Anteco, both subsidiaries of YULE CATTO.

■ Don Sloan, marketing director, has been appointed to WOOLWORTHS main board.

■ David Harding, deputy finance director of TI, has been appointed finance director; Reg Moore has resigned from the board of Dowty and will act as a consultant to TI.

■ Steven Glick has been appointed group legal adviser and company secretary of GRASEBY on the retirement of Donald Lester.

■ Les Tench, formerly md of Steetley Building Products, has been appointed md – Britain for CRH.

ARTS

Pop
Liza Minnelli

Liza tells us that when she was a youngster she used to sit on the stairs at Sammy Davis Junior's Hollywood mansion and listen to the adults enjoy a sing song around the piano. Brando, Dali, Monroe, Dietrich, Sinatra did their party pieces with James Stewart rather improbably rattling the ivories. Ah, happy days.

Now, so many breakdowns, marriages and traumas later, Liza Minnelli stands almost alone in perpetuating the show biz tradition she was raised in, the old trouper for ever smiling through, alive only on stage. Any performance by Liza Minnelli is bound to be heavily seasoned with schmaltz. When she committed herself to holding a charity tribute, "paying back something to Sammy", the sentimentality was guaranteed to be boundless.

In the event the evening was beyond criticism because it raised over £500,000 for cancer charities in the UK and the US. It also delivered the personalities that the audience craved. On to the stage in the round, like bulls entering an arena for their brief moment of glory, bounced an extraordinary mish mash of stars. Why, that's Jerry Lewis; it's Tom Jones; surely Joan Collins; and Charles Aznavour; and Cliff. There was room, too, for that ineffable side kick of the stars, Lionel Blair, who can always be relied on to put in an appearance rather than put on a performance. The only time the audience hesitated was when Liza's sister, Lorna Luft, did her party piece. In the event her Sammy Davis story capped them all – he was actually present at her birth. No matter that many read their tributes from the autocue – they'd answered the call.

The second half was all Liza. The voice may be dodgy, especially in the high notes, and the movement less spring heeled, but no one can publicly emote like Ms Minnelli. There were too many of those noisy tuneless songs inspired by positive thinking, epitomised by the newly penned "Yes I can", and the Newley-Bricusse song book featured too prominently, but you have to admire Liza – if she'd been on the Titanic she'd have gone down tapping. There was even a medley of real style, of classic standards ("Just You; Just me"; "Never be Another You"), the songs the stars sang "At Sammy's House".

At the end the grease paint crown was passed on – the tributes transferred from Sammy to Liza. Sinatra was on screen to seal the show, and then Jerry Lewis gave Liza the first "Sammy", which looked like an African fertility symbol. Judging by the praises sung – his generosity, his friendship, his professionalism – Davis is on his way to a swift sainthood. The man himself, in a remarkably frank biography, painted a portrait of a frankly reprehensible person redeemed by his honesty. But for one night the audience, who enjoyed the privilege as cardholders of American Express, the sponsors of the show, could take a peep at the garish, glitzy world of entertainment and go thankfully home to their discreet beds.

Antony Thorncroft

Cinema/Nigel Andrews
Blissful send up of Tinseltown

THE PLAYER
Robert Altman

GLADIATOR
Rowdy Herrington

RAINER WERNER FASSBINDER

All the world loves a comeback. In Cannes, where Robert Altman's blissful Hollywood satire, *The Player*, won best director prize, Altman gamely insisted that he had never been away. But two decades have passed since his last palpable hit, *Nashville*. During that period Hollywood's favourite ageing hippy, the creator of *M.A.S.H*, *McCabe and Mrs Miller* and *California Split*, has marked time with fidget-inducing filmed plays like *Streamers* or commercial clinkers like *O.C. & Stiggs*.

Altman has never been away? As soon believe Rip Van Winkle if he claimed he had only nodded off for an hour. But in *The Player* Altman not only returns, he returns in style. He takes up the red carpet nervously laid out for him by Hollywood, puts it between his teeth and munches it happily for two hours. The nominal plot, derived from screenwriter Michael Tolkin's novel of Hollywood life and death, concerns the cover-up campaign of a young studio executive (Tim Robbins) who has murdered a screenwriter suspected of sending him poison pen postcards. The real plot, scribbled between the lines by a lovingly acerbic Altman, concerns the follies of the film community as millions of dollars are poured daily into an industry largely devoted to recycling yesterday's waste.

We get the message in the virtuoso 10-minute opening shot. As the camera serpentines around a studio forecourt, following strolling execs or peering through windows, we eavesdrop on a dozen different conversations. The bespectacled film-maker pitching "The Graduate 2", the young writer promising a script that's "like *Ghost* mixed with *The Manchurian Candidate*", the studio employee shouting "Hey, you're Martin Scorsese" to Alan Rudolph . . .

This is the Tower of Babel passing itself off as a communications industry. The language spoken in Hollywood, as everyone who has been there knows, is Gobbledegook without subtitles. But that language also has a nightmare logic. "I didn't know you had a drinking problem" says Robbins to fellow studio whizz-kid Peter Gallagher as the latter sets off for an Alcoholics Anonymous meeting. "I don't," comes the reply, "but that's where all the big deals are being made."

Meanwhile there is the stark-eyed English director (Richard E. Grant) eager to make a no-compromises anti-capital-punishment picture. This will end up as a gaudy jailbreak romp starring Julia Roberts and Bruce Willis, playing themselves. There is Robbins's secretary-girlfriend sent to New York on a Wolfe-hunting trip, to sign up *Bonfire Of The Vanities* author's new book, while Robbins himself plays wolf to Greta Scacchi's fey Icelandic painter (ex-girlfriend of the murdered writer). There is the Hollywood-influenced priest at the funeral intoning "It's been a long day – fade-out – thank you." And there is the ceaseless round of Tinseltown parties, where celebrity-spotting becomes a form of delirium tremens. Oh look, there is Rod Steiger; Harry Belafonte; Cher; Elliott Gould; Spiro Agnew; Benjamin Disraeli; Plato . . .

Most of the above appear for real in *The Player*. How an Altman at low career ebb persuaded them to lend cameo kudos to a low-budget comedy aimed at savaging the hand that feeds them is a mystery. But what a beautiful mystery. The film glides along like the invertebrate masterworks of Altman's heyday: those films that seemed all grace and no structure. The camera defies walls, passes through windows, peers under folded raincoats (where a rattlesnake may be concealed), observes the overlapping chatter and makes the filmgoer jump in pleasure at the surreal sight of a knee emerging from a mudbath.

When in doubt, which is not often, Altman cuts to a comedy subplot serenely tangential to the Tinseltown themes. Whoopi Goldberg crackles through the story as a semi-crazed black woman detective, clearly overstrained by being every oppressed social sector's equal-rights representative.

Like all masterworks, *The Player* is a film to be lost in. We are never more certain of its sense of direction than when we blithely query "Where are we?" And we are only aware of faltering navigation when we can say "Oh here we are", stuck with the indifferent love scenes between Robbins and Scacchi. Scacchi does her bushbaby-eyed, aren't-I-enigmatic routine. And though Robbins won a Cannes best actor prize for his sweetly creepy anti-hero, his natural passivity becomes dullish away from the film's satiric epicentre.

Elsewhere, *The Player* will be remembered as a satire that pours scorn over its targets as if scorn were champagne not vitriol. It may also be remembered as the opening shot of a new and exciting epic – who says that some movie ideas are not worth recycling? – "Robert Altman the Sequel."

*

Gladiator should have come as part of the publicity kit for *The Player*. This is the kind of film Mr Altman is talking about when he suggests that modern Hollywood, or a large part of it, is brain-dead. Somewhere in Chicago, high school youngsters of all ages and races come together nightly in a giant lock-up warehouse to box. It is illegal, semi-suicidal and highly paid: $1000 for a night's work. Crooked promoter Brian Dennehy, a Satanically-lit hulk peering down on the ring from his office window, would like blood for starters, fear for main course and death for dessert. The merry patter of fist of facial bone continues for 101 minutes, sometimes interrupted by demented character work from Dennehy and Robert Loggia. The latter enjoys himself as a foulmouthed trainer. "Frig this," "Frig that," "Frig you" he says. I am giving you the TV and airline version.

But no amount of up-to-date expletives or multi-racial casting – James Marshall as the white hero, Cuba Gooding Jr of *Boyz N The Hood* as his black rival, Jon Seda as an excitable Latino – prevent this film from looking like an old Warner Brothers white slave melodrama of the 1930s. We keep wondering when Edward G. Robinson or Sydney Greenstreet will turn up, or James Cagney prance in hitching his shoulders and snarling "You friggin' rat."

*

I love the myths that grow up around film-makers at anniversary time. In the new issue of *Sight And Sound*, six pages are devoted to the memory of Rainer Werner Fassbinder who died ten years ago this month. The critic writing the main essay, carried away by his own certainties, claims that RWF's weird tale of an abused transexual, *In A Year With Thirteen Moons*, was his most autobiographical film and that the director "took personal responsibility for virtually all aspects of the film's production."

Ah yes. And pigs have wings. I watched two day's shooting on this movie in Frankfurt. Fassbinder, heavily into abusable substances at this time, failed to turn up one morning, vanished one afternoon, and even when present for filming tended to hand the camera to one of his actors to rehearse and shoot. Between sessions of waiting-for-Rainer I and another critic buzzed off to an ice cream parlour with main actor Volker Spengler. Since Spengler was dressed in drag, these trips tended to disrupt traffic and attract even more chaos around the production.

RWF was a genius but not always a hands-on genius. Many of his best films were collaborative creations in the best Renaissance tradition, made with a team of cronies who might have been dubbed the Scuola di Fassbinder. To venture this idea does not diminish the achievement of his best work, represented in the ICA's coming season: *The Bitter Tears Of Petra Von Kant*, *Effi Briest*, *Fear Eats The Soul*, *Fox And His Friends* and the spellbinding *Merchant Of Four Seasons*. Fassbinder, with and without help, created a cinema that used seeming naivety of gesture and image to refresh our perception of truth, jaded from long decades of looking at the true naivety of Hollywood or the overwrought sophistications of Europe.

Tim Robbins in 'The Player': Robert Altman returns to form with a vengeance

English National Ballet

It was a brave move on the part of English National Ballet to open a brief Coliseum season with a programme of new works – and with tickets at half the usual prices. The ballet audience is in decline, put off by the inhibiting cost of seats, and hence not prepared to gamble on the unknown. Thus the ghastly predictabilities, and predictable box-office returns, of safe titles and full-length ballets whose name is more important than choreographic merit.

I cannot say if ENB's gamble on Tuesday and Wednesday with five new pieces will be justified in the accounts, for all the economy of the stagings, but it is treasure in Heaven for a troupe that has looked artistically blinkered of late. There were two creations for the company, Kim Brandstrup's *White Nights* and Robert North's *A Stranger I Came*. Brandstrup takes as his starting point a Dostoievsky story of a man obsessed with a girl whom he meets while she is waiting vainly for her lover. Brandstrup opens out the tale: his hero is a photographer, recording life rather than living it, until this meeting turns him from dispassionate observer into passionate player.

The narrative develops by being intercut with scenes in which the man photographs groups of young lovers. Brandstrup studied film at Copenhagen University, and his dance works often suggest cinematic structure. The action flows, then lingers on incident. Revelatory images spring vividly from a long shot of the narrative; dreams (the girl's longing for her lover; the photographer's feelings for the girl) shadow each moment of the drama.

I find the resultant work allusive, haunting. Brandstrup's ability to fix emotion with gesture is wonderfully exact; his choreographic language is fluent, clear and true. Kevin Richmond, as the photographer, gives a performance beautifully judged both in its intensity and in its control; Josephine Jewkes is no less fine as the girl. The score is by Gerard McBurney, based on piano fragments by Mussorgsky; minimal, efficient design is by Fotini Dimou.

Josephine Jewkes and Kevin Richmond also take leading roles in Robert North's *A Stranger I Came*. Seven Schubert songs provide a basis for a study in high Romantic despair as Thomas Edur wanders the world, unhappy in love (Miss Jewkes the woman), his every step dogged by his *doppelganger* fate (Mr Richmond). North's choreography has a directness of response to the score that disarms our suspicions that the songs are not to be so arbitrarily used (the musical desolation of *Die Leiermann* is dissipated in character capers), and the cast respond with no less direct interpretations. Edur is superb, an Apollonian premier danseur who uses the classical vocabulary as his native tongue, and can speak of feeling as well as of the beauties of academic propriety. Here he gives the dance a Schubertian dignity and poignancy.

The remaining pieces in this programme were lighter in weight. From the American choreographer David Parsons two clever jokes. *The Envelope* is about an un-put-downable, inescapable letter, that passes among seven dancers and won't go away, while fragments from Rossini overtures goad the quirky movement ever onward. *Sleep Study* is about seven pyjama-ed people who behave as insomniacs will know only too well: twitching, turning, lying on their backs, sides, on each other, prey to every known form of fidget. Non-dance as dance, and great fun. Both pieces are short, impeccably timed by creator and interpreters.

And to close the evening, *L*, a choreographic tribute to Liza Minelli from Ben Stevenson. It proposes 13 men, three percussionists, and a torrent of trick steps and show-biz clichés that make it a mockery of male dancing as anything save cheap-jack physicality. It was singularly unexhilarating, and unflattering to its cast.

Clement Crisp

English National Ballet is at the Coliseum until June 27.

Alastair Muir

Josephine Jewkes and Kevin Richmond in Kim Brandstrup's 'White Nights'

Opera/Richard Fairman
Don Pasquale

It is unlikely that Donizetti realised what a favour he had done opera-house managements when he wrote *Don Pasquale*. The opera has been popular since the day it was first performed and yet, with just four singers, no need for big, expensive voices, a small chorus and modest sets, it involves less than a grand opera budget.

Thus *Don Pasquale* is often called for. Even when the rest of Donizetti's output was mostly languishing in neglect, this well-made comic opera had a ready audience. The Royal Opera has been playing it since 1973 in the production by Jean-Pierre Ponnelle, which looks more tasteful now than it did 20 years ago (how styles change!) and the opera has never failed to put across its wit and considerable charm.

The present cast is a partial reconstitution from the revival of two years ago. The mainstay then was Paolo Montarsolo as Pasquale and he is back, giving every impression that he has lived the role for a lifetime. As he curls up in a favourite armchair, he really seems fond of the old fellow, comfortable in his crumpled smoking-jacket, at home in his fusty bachelor drawing-room, at ease even with his rheumaticky wheezes and slow shuffle.

Montarsolo is also Italian, which helps in getting the words across. The patter in his duet with Dr Malatesta went at just about the fastest rate this production can have seen and the French baritone François Le Roux as the double-dealing doctor, visibly a sharp operator as quick on his feet as he was to flash a winning smile, did well to keep up with him.

The two young lovers were played by Judith Howarth and Raúl Giménez, able singers both. The soprano is careful to bind one note to another and makes a Norina in whom one always has confidence, firmer of voice than many who take the role, not a flighty canary of a singer. Her whistling high F in the opera's final moments arrived without warning. Giménez is at his best in the scene of the nocturnal tryst, where he touches upon the top notes with moon-lit delicacy.

There is more opportunity for expressive singing in the bel canto style than the four singers find between them, but with Bruno Campanella providing a stylish lead from the pit the musical standard is very respectable. One change in the staging is that the cats, which were such a feature of Pasquale's household, have gone. Or perhaps this production has simply outlived them: *Don Pasquale* always has been an opera with nine lives.

Performances continue at Covent Garden until July 2 (Box Office 071-240 1066)

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Muziektheater 20.00 Holland Festival production of Stockhausen's Dienstag aus Licht (6255 455)

BARCELONA

Palau de la Musica 21.00 Concert by Barcelona City Orchestra. Repeated tomorrow. Sun and next Tues: Liza Minnelli (268 1000)

FLORENCE

Teatro della Pergola 20.30 Vittorio Sicuri conducts Rossini's Petite Messe Solennelle. Tomorrow and Sun in Teatro Communale: new MaggioDanza production of arrangements of 19th century theatre ballets, choreographed by Evgeny Polyakov and Orazio Messina (277 9236)

GENOA

Teatro Carlo Felice 21.00 Bob Wilson's Hamburg production of The Black Rider by Tom Waits. Also tomorrow, Sat and Sun (589329)

LONDON

MUSIC AND DANCE

Covent Garden 20.00 Christoph von Dohnanyi conducts Der fliegende Holländer, with James Morris and Julia Varady, also Mon. Tomorrow and Sat: Don Pasquale (071-240 1066)
Coliseum 19.30 English National Ballet in Ben Stevenson's new production of Cinderella, also tomorrow and Sat. ENB summer season continues at the Royal Festival Hall in the last week of July (071-836 3161)
Royal Festival Hall 19.30 Ravi Shankar plays north Indian classical music for sitar. Tomorrow: Jane Glover conducts RPO and London Choral Society in an all-Poulenc programme. Sat: Krystian Zimerman plays Beethoven (071-928 8800). Sun and Mon in Barbican: Michael Tilson Thomas conducts Bernstein's On The Town (071-638 8891)
Queen Elizabeth Hall 19.45 Trumpeter Alan Elsdon and his All Star Jazz Band in a tribute to fellow trumpeters Louis Armstrong and Alex Welsh. Tomorrow: Brigitte Fassbaender song recital (071-928 8800)

THEATRE

● Fuente Ovejuna: Lope de Vega's 1612 play tells the story of a small town's revolt against a brutal overlord. Declan Donnellan's acclaimed National Theatre production, back in London after a visit to the Seville Expo, is in repertory at the Cottesloe, along with Jim Cartwright's new play The Rise and Fall of Little Voice.

The NT also has Molière's comedy Le bourgeois Gentilhomme, directed by Richard Jones, and George Farquhar's comedy The Recruiting Officer, directed by Nicholas Hytner. A new production of Shakespeare's A Midsummer Night's Dream, directed by Robert Lepage, begins previews next week (National 071-928 2252).

● New Shakespeare Company's summer season in Regent's Park has A Midsummer Night's Dream and As You Like It. The classic Gershwin musical Lady Be Good joins the repertory on July 28 (Open Air 071-486 1933).

The Royal Shakespeare Company has Romeo and Juliet and Ben Jonson's satire on greed, The Alchemist. A new play by Richard Nelson, entitled Columbus The Discovery of Japan, opens on July 22 (Barbican 071-638 8891)

● A Judgement in Stone: Sheila Hancock stars in a new musical thriller based on the novel by Ruth Rendell. Until July 4 (Lyric Hammersmith 081-741 2311).

● The Blue Angel: Kelly Hunter takes on the mantle of Marlene Dietrich as the night club singer who captivates the respectable Professor Raat. Trevor Nunn directs Pam Gems' adaptation of the Heinrich Mann novel (Globe 071-494 5065). Ends Saturday.

● For ticket information about all West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

MUNICH

Philharmonie 20.00 Enoch zu Guttenberg conducts the Brno State Philharmonic Orchestra and Chorgemeinschaft Neubeuern in works by Stravinsky, Mahler and Gounod. Tomorrow: Hans-Martin Schneidt conducts Munich Bach Orchestra and Chorus in Rossini's Stabat Mater. Sun: D W Griffiths' silent film Intolerance with live orchestral accompaniment conducted by Carl Davis (Gasteig 48098 614). Munich Opera Festival opens on July 6 with a new production of Carmen and runs till July 31 (Bavarian State Opera 221316)

PARIS

Salle Pleyel 20.30 Semyon Bychkov conducts the Orchestre de Paris in the first of two programmes devoted to Dutilleux and Ravel. Tonight's programme features Dutilleux's Metaboles and Ravel's Piano Concerto for the left hand (Leon Fleischer), La Valse and Rhapsodie espagnole. Mon: Dutilleux's Second Symphony and Ravel's G major concerto (Alicia de Larrocha). A Dutilleux exhibition is on show from today till Monday evening at Salle Pleyel (4563 0796)
Salle Gaveau 20.30 Song recital by Ruggero Raimondi (4953 0507). Tomorrow in Basilique de Saint Denis: James Conlon conducts works by Poulenc and Gounod (4230 2308)
Opéra Bastille 19.30 Arnold Ostman conducts Le nozze di Figaro, with Tom Krause, Margaret Price, Adelina Scarabelli and Ferruccio Furlanetto. Tomorrow: Marek Janowski conducts Bruckner's Eighth Symphony. Sat: Otello (4001 1616)
Palais Garnier 19.30 Marcello Viotti conducts Dario Fo's Amsterdam production of Il barbiere di Siviglia, with Louis and Gino Quilico, Gloria Scalchi and Luigi Roni. Runs till July 5, next performance on Sun (4742 5371). Tomorrow and Sun in Châtelet: John Eliot Gardiner conducts Così fan tutte (4028 2840)

● A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898

PRAGUE

OPERA

A new production of Hurnik's 1966 opera The Lady and the Robbers, directed by David Sulkin, opens tonight at the National Theatre, repeated tomorrow. Sat: The Bartered Bride. The Prague State Opera (formerly Smetana Theatre) has Otello tonight and Sun, and a new production of L'Italiana in Algeri on Sat.

CONCERTS

Tonight's concert by Musica Bohemica at the Smetana Hall includes music by Bach, Handel and Telemann. Sat: Petr Altrichter conducts the Prague Symphony Orchestra in works by Bernstein and Dvořák. Sun: Bohumil Gregor conducts soloists and orchestra of the National Theatre in a programme of arias by Mozart (u Prasne brany 2, 232 5858).

● For pre-booking and information about other events, contact city centre ticket agencies (Bohemia, Na Prikope 16, 228738, or Melantrich, Wenceslas Square 38 in the passage, 228714) and theatre box offices.

STRATFORD

Three new productions by the Royal Shakespeare Company open in the coming week. Adrian Noble directs The Winter's Tale at the Royal Shakespeare Theatre (starts previewing tonight, opens next Wed).

Sir Peter Hall returns to direct All's Well That Ends Well in the Swan Theatre, with designs by John Gunter (currently previewing, opens next Tues).

The first production of the season at The Other Place is The Odyssey, a new play by Caribbean poet and playwright Derek Walcott, inspired by Homer's epic. It is directed by Gregory Doran (currently previewing, opens next Thurs).

The Stratford repertory also includes The Taming of the Shrew and The Beggar's Opera (0789-295623)

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MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0630-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Thursday June 25 1992

New direction in Israel

To a world which was growing cynical at the prospect for progress in Middle East peace negotiations, the result of Tuesday's Israeli election marks a refreshing new departure. Not only has a party that promises to engage much more constructively in the peace process emerged as the overall winner. Labour has also won by a margin convincing enough to put it at the centre of a coalition government that can proceed rapidly to implement its full agenda, starting with a freeze on Israeli settlement activity in the occupied West Bank and Gaza Strip and interim autonomy arrangements for the Palestinians there. The west, and especially the US administration, whose tireless efforts to keep Israel and its Arab foes at the negotiating table had an important influence on the election campaign, has every interest in welcoming the new Israeli government and helping it to keep its promises – as well as prodding the Palestinians and Arab states to stick to theirs.

The victory achieved by Mr Yitzhak Rabin, the 70-year-old Labour leader, is the most decisive result produced by Israel's notoriously fissiparous electoral system in at least 15 years. It is also a humiliation for Mr Yitzhak Shamir's Likud party, which has dominated the country's politics to increasingly baleful effect in the interim and which has blocked all worthwhile progress in the Middle East peace talks for the last six months. Above all, it is a sign that Israelis are tiring of the politics of isolation and are coming to understand that political intransigence carries a price, in deteriorating relations with the US and reduced access to American aid.

Cautious pragmatist

Labour's 45 seats, coupled with the 12 won by the Meretz party to its left and the usual handful for the Israeli Arab parties, mean that it is in control and has no need to strike onerous coalition deals with religious or right-wing rivals.

Indeed, Mr Rabin, a cautious pragmatist who campaigned on a ticket giving "security" at least as much weight as "peace" and was widely assumed to be manoeuvring his way towards another national unity government with the Likud, may find his party's mandate uncomfortably strong as he comes under pressure from the newly-confident left to step up the pace. He will be as conscious as anyone of the dangers of confrontation with the right – and especially with Jewish settlers in the occupied territories – as Israel moves towards the difficult territorial decisions that it has avoided for the past 25 years.

High expectations

Even the first steps down this path will be far from easy. Settlers have the capacity to play havoc with an attempted freeze on new settlements and with the Palestinian elections that Mr Rabin will want to stage as a prelude to allowing limited self-government. Externally, there is a danger of the Labour victory generating excessively high expectations that will later be dashed – when, for example, Mr Rabin fails to talk directly to the Palestine Liberation Organisation or makes clear that his idea of exchanging territory for peace is much more limited than those of his enemies and even his allies.

For the Labour leader, as for most Israelis, there is no question of handing back much more than the densely populated Palestinian areas of the West Bank and Gaza, only extremely limited flexibility over Syria's demand for the return of the Golan Heights, and absolutely no question of giving up sovereignty over any part of Jerusalem. He has also consistently argued that there is no room for an independent Palestinian state. Israel's Arab negotiating partners – who will never have a better opportunity to advance their cause through talks than now – would do well to bear these eventual obstacles in mind, and concentrate on transitional measures rather than demanding to know the shape of a final settlement in advance.

For the time being, though, momentum is all. President Bush and Mr James Baker, his secretary of state, understand that and will want to encourage the new Israeli government to plunge now into intensive negotiations with the Palestinians. If Mr Rabin agrees, and if he can make a freeze on new settlements stick, than Israel can reap its reward in the form of the $10bn in loan guarantees that Washington has been withholding.

The future of school education

THE EDUCATION white paper due to be published next month will set out the government's plans for state schools in England and Wales for the next 25 years. Mr John Patten, the education secretary, is determined that it should enhance parental choice by increasing the number of schools opting out of local education authority control. But opting-out is raising questions over the future of school education to which the white paper will need to find convincing answers.

So far fewer than 250 of the 25,000 schools in England and Wales have become grant-maintained – funded from Whitehall, with their governors enjoying almost unfettered control over management, budgets and recruitment. But with the Conservative election victory, the trickle is turning into a flood, as 150 requests for information now pour in every day. By the next election, most of the 4,000 secondary schools are likely to have opted out. The white paper will include measures to allow the smaller primary schools to opt out in consortia.

Such growth is likely to increase the sort of problems of access which have appeared in areas where schools have already opted out. In the London borough of Bromley, for example, several hundred parents recently found that there was no place for their children next autumn at the nearest secondary schools, as opted-out schools cast their nets more widely. Similar problems have emerged in the London borough of Hillingdon. Local education authorities may find themselves hard-pressed to ensure school places for all as opting-out becomes the norm. Parents could find that their choice has diminished rather than increased.

Progress indicators

These problems will be exacerbated once information about examination results, truancy rates and other indicators of schools' progress is published in league tables. It is entirely right that such information should be collected and disseminated – but it is clear what the consequences will be. Middle class and highly motivated parents will gravitate towards schools with the best results, while those at the bottom of the league tables will find it harder to attract able children. A rational headteacher – whose salary reflects the size of the school roll – will try to select entrants who are less likely to depress performance.

Serious deficiencies

Two consequences follow from this. The first is that there will be a group of pupils no grant-maintained school will wish to accept – including those with poor attendance records or a history of disturbance. Yesterday's Audit Commission report has highlighted serious deficiencies which already exist in provision for the one in five children with special educational needs. These will be harder to tackle if schools become fussier about their entrants.

The second is that such pupils will be concentrated in schools remaining in local authority control, which will become the educator of the last resort. This will increase, rather than decrease, the number of inner-city sink schools which the government hopes to tackle. The creation of a series of "sin bins" is a policy no government should contemplate.

One solution which the white paper might consider is a funding incentive to encourage grant-maintained schools to accept a fair share of children with special needs. Such pupils could attract additional per capita grants, for example. The local education authority might also be given the right to nominate a proportion of pupils to grant-maintained schools to ensure that all schools accept a cross-section of abilities and backgrounds.

Whatever the solution, it is clear that there remains a role for an *elected local education authority* even after opting out has become the norm. Rather than providing school education, the local education authorities would then *assume a new purchaser role*, ensuring that all children have equal access to education and planning local provision. The white paper should resist the temptation to abolish them in favour of some quango or Whitehall control. If it does, it will rue the day – and, as with the poll tax, virtually every independent *voice will have told it so.*

South Africa's latest bout of violence may yet prove a spur to political reform, say **Michael Holman** and **Philip Gawith**

A battle of political wills

South Africa is being given a look into what might be its future, and it is likely to prove a salutary experience. Township slaughter and trigger-happy police have raised fears that constitutional negotiations, already deadlocked, will be abandoned. An apocalyptic vision of a country slipping into ungovernability is gripping South Africa.

For the past 24 hours the African National Congress (ANC) and the government have been locking horns in a dramatic test of political will which could either break the deadlock or push the country towards disaster.

Last night's angry rejection by the ANC of President F.W. de Klerk's proposal of a two-day meeting to break the deadlock may suggest that South Africa is moving towards the abyss. But the more likely outcome is that the days ahead will see both sides make clear that they see no alternative to the *negotiating table*.

The present crisis reflects a deep distrust between the two sides and the wide gap over constitutional objectives. But the tragedies – the latest in political violence that has cost more than 13,000 lives since 1984 – may yet turn out to have provided an impetus to the talks, and not to have sounded their death knell. Politicians' minds are being concentrated by a week which has had all the ingredients of recurring South African nightmares.

Sharpeville in 1960, the 1976 Soweto students' uprising, the township wars of 1984-86 – all are etched in the country's memory. Boipatong, until now an anonymous shanty township near Johannesburg, joined this list last Wednesday.

Unknown assailants slaughtered 42 residents including a pregnant woman and a baby. The ANC *blamed supporters of Chief Mangosuthu Buthelezi's* Inkatha Freedom Party (IFP), and accused the security forces of complicity. Three days later, police opened fire on unarmed demonstrators, protesting against the massacre, killing three people, and an outraged Mr Nelson Mandela announced the suspension of constitutional negotiations.

Thus began South Africa's latest crisis, with the financial rand – the investment currency – falling nearly 7 per cent in one day, talk of *renewal of sanctions, and calls for* the involvement of the United Nations.

The sense of crisis deepened as old political instincts rapidly resurfaced Mr Mandela threatened "mass action", a series of strikes, demonstrations and boycotts. President F.W. de Klerk, driven by angry residents out of Boipatong where he had gone to express his sympathy, took refuge in *kragdadigheid* – the iron fist used by his predecessors – hinting at a government crack down.

By Monday, however, as fury at home was matched by outrage abroad, the full enormity of the crisis was dawning on a government that had become over-confident, forcing President de Klerk to cut short a visit to Spain and return in time for yesterday's cabinet meeting.

Were South Africa a democracy, Mr de Klerk's party would be out of office, racial politics aside. Two official investigations into government departments or agencies have *revealed fraud running into millions of rands.* A combination of press inquiries and judicial investigations have produced powerful evidence of state involvement in violence against its political opponents, particularly the ANC.

Mr de Klerk's belief in his cause seemed undented, however, contributing to his failure to grasp the *consequences of seemingly endemic* violence on the peace process. Buoyed by the referendum in March in which 69 per cent of whites endorsed his reform programme, the president has been able to point to a string of successes: the repeal of most sanctions, re-entry into the international sports arena (now in jeopardy), and warm receptions in formerly hostile countries.

But central to his confidence is Mr de Klerk's belief that the *National party can lead a winning* alliance in South Africa's post-apartheid elections. Far from being depressed at the deadlock at last month's Convention for a Demo cratic South Africa (Codesa), the multi-party negotiating forum, Mr de Klerk seemed unshaken in his belief that his party would remain central to the government of a future South Africa.

In private at least, ANC officials acknowledge that the electoral arithmetic gives them food for *thought. It assumes that the bulk of* white voters (14 per cent of the population) would vote for Mr de Klerk. Both the coloured (9 per cent) and Indian communities (3 per cent) could be drawn into a minority parties alliance in which the other leading black participant would be Chief Buthelezi and his Inkatha Freedom party, drawing support *from the country's 8m Zulus,* 21 per cent of the black population. The right-wing Conservative party (representing about a third of white voters) would, it is argued, have no choice but to join South Africa's "rainbow coalition".

Put this calculation in the context of the government's constitutional proposals and the ANC's unease deepens. Mr de *Klerk envisages not only power* sharing in an executive, whose com position would reflect the principle of proportional representation. At the Codesa negotiations the govern ment has insisted on a decentralised administration, giving provincial assemblies considerable autonomy, with their powers entrenched in the constitution.

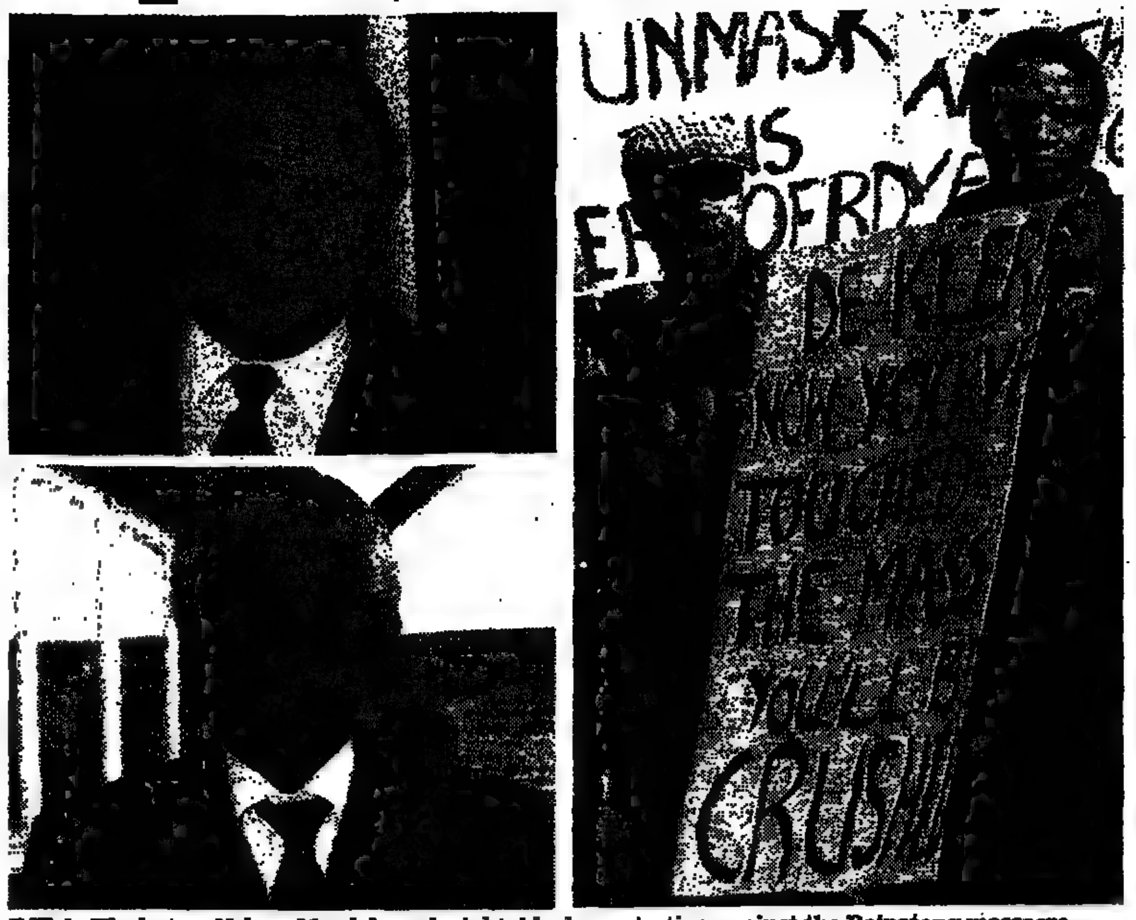
Such a system offers Chief Buthelezi the possibility of securing Natal as his fiefdom, and the prospect of a Cape Province run by whites and *coloureds whose combined* popula tion outnumbers that of blacks. Add to this strategy the existing white dominance of commerce, the civil service and the security forces, and Mr de Klerk's confidence seems understandable. It is against this backdrop, say ANC officials, that the violence can be explained. The brutality, they claim, is intended to consolidate Inkatha's hold on Natal, where some of the worst violence has taken place, make support for the ANC dangerous and persuade ethnic minorities to choose the side with the greater firepower.

But other explanations of the slaughter include allegations that it is the ANC which has been responsible. A leading South African com mentator yesterday contrasted the outrage over Boipatong with the muted protest over the slaughter of at least 23 people at the Crossroads *squatter camp east of Johannesburg* last April. The fundamental differ ence behind the response provoked both at home and abroad, notes the commentator, is that "Boipatong is a township in which the ANC is the dominant political organisation; the IFP is paramount in Crossroads".

Wherever the truth lies, the ANC is discovering that an interim government will not be achieved on the terms it anticipated. Earlier this year Mr Mandela said agreement on such a government was imminent, *and his supporters' frustrations* are mounting. The reality is that neither the ANC nor the government entered the May talks with an accurate assessment of the other's position. They underestimated their policy differences, partly through failing to take each other's stated position *seriously, and failed* to realise the limits of their powers.

The negotiating process is only now starting to grapple with the *fundamental* problem of how to reconcile majority rule and minority rights. The parties have sprinted through the preliminaries, creating a false sense of optimism about the speed with which agreement can be reached on fundamentals. Premature electioneering, in which Mr Mandela and Mr de Klerk increasingly see each other as rivals in the battle for power *rather* than partners in the transition from apartheid, is also poisoning the atmosphere.

The wrong constitutional mix, warned Mr John *Kane-Berman*, executive director of the South African Institute of Race Relations, an independent research body, could exacerbate violence and civil strife. "We do not want a constitution which, like the Treaty of Versailles, merely lays the foundations of the next war."



F W de Klerk, top, Nelson Mandela and, right, blacks protesting against the Boipatong massacre

The days ahead will show how much has been learnt by the negotiators from the impasse reached last month. For its part the ANC has so far per formed adeptly, doing enough to reflect the anger of its supporters, *while setting terms* for the resumption of talks which should fall within the government's grasp. Some are not new and have already been accepted by government in principle. These include *a commit* ment to an interim government, hunting out rogue elements in the security forces and abolishing the hostels whose residents have been responsible for many of the killings.

The main stumbling block may be the ANC call for an international commission of inquiry into the Boi patong massacre. But middle ground may be found. Mr de Klerk yesterday pointed to the standing inquiry by a South African judicial commission into political violence *which has been critical of the security* forces. The same judge about to investigate the Boipatong tragedy could be assisted by an assessor "of international repute". The government also appears to be softening its resistance to international monitoring, with delegations from the Commonwealth and the Organisation of African Unity among the visitors to troubled townships.

The main question is whether Mr de Klerk and his cabinet have been jolted out of their complacency by *the events of the past few days, and* now accept that only a genuine attempt to tackle violence at its core will create the right climate for talks. The imperatives driving the government to the negotiating table are as strong as ever, whether an economy in recession or the pros pect of a repeat of the insurrection in the townships in the mid-1980s.

For Mr Mandela the threat of "mass action" could prove a two-edged sword. He cannot afford to ignore that part of his constituency which consists of frustrated youths who boycotted their schools in order to man the barricades in the townships. Competing for their loyalty is the radical Pan Africanist Congress (PAC) which has remained aloof from Codesa, arguing that it will lead nowhere.

What Professor Frederick van Zyl Slabbert, a leading *commentator*, described as a "massive growing young black population, increas ingly urbanised, yet unskilled, unemployed and politically volatile" may well interpret Mr Mandela's appeal for action as a renewed call to the barricades.

BOOK REVIEW

Look back in longing

Changing Fortunes:
The world's money and the threat to American leadership
By Paul Volcker and Toyoo Gyohten
Times Books New York. $25

The lightness of touch Mr Paul Volcker achieves in his account of the beginning of the Third World *debt crisis perfectly captures the* flavour of this delightful book.

"The crisis landed on our doorstep – or, more literally for me, at a fishing ranch in Wyoming – early in the week of August 9. That morning, I had great difficulty catching anything. That afternoon, I was visited by the chairman of the Continental Illinois Bank, who flew out to tell me the bank was in so much trouble that it would need Federal Reserve support. The next day my office called to tell me Mexico was about out of money, so I headed back to Washington almost fishless."

In several decades of public service, Mr Volcker, the former chair*man of the US Federal Reserve, and* Mr Toyoo Gyohten, a former top official at Japan's Ministry of Finance, participated in nearly every important episode in interna*tional monetary policy. They have* produced a wry, deftly understated account of momentous events, unblemished by any trace of pomposity.

The book grew out of series of seminars at Princeton University and is organised as a series of paired essays. The pattern is for Mr Volcker to provide a lengthy US perspective on an *important episode* – such as his battle against inflation in the early 1980s. Mr Gyohten then provides a shorter, but often surprisingly pithy, account of the same events *as seen from Tokyo. As* monetary history, the effect is unique: a rich stereo sound in place of the usual mono reproduction.

Perhaps the book's greatest virtue is *its ability to put events in a long* perspective. It opens in the 1950s long before Japan is perceived as any kind of economic threat. Mr Gyohten enters the story as an impoverished graduate *student* at Princeton trying to *survive* on one ham-and-lettuce sandwich a day. By the end, the tables are almost completely turned. It is American, rather than Japanese, goods that are seen as cheap and shoddy. It is the US, rather than Japan, that is running big external deficits. It is the US, rather than Japan, that is dependent on the goodwill of foreign investors. Mr Gyohten, once supplicant, has become a courteous paymaster.

Mr Volcker's account of events is tinged with a kind of sadness or resignation. He explains how, for the first decade or so of his career, he took both American pre-eminence and the Bretton Woods inter*national monetary system* for granted. "It's hard now, after all the changes in exchange rates and disturbances in financial markets, to recapture the strength of the emo*tional and intellectual commitment* to the international stability of the dollar and the fixed gold price," he writes.

One of the book's highlights is a *vivid account of the collapse of* Bretton Woods during the Nixon presidency. Mr Volcker, then a Treasury under-secretary, reported to John "Typhoon" Connally, Mr *Nixon's strong*-minded Texan Treasury Secretary. Mr Volcker recounts how he feared the suspension of gold convertibility and devaluation of the dollar would be seen as a humiliation for the US. In the event he learned "a good lesson about what masterful politicians can do." Like Churchill after Dunkirk, Nixon and Connally managed to snatch *victory from* the jaws of defeat. In the US at least, the emergency package was seen as a triumph and a fresh start.

Twenty years later, Mr Volcker remains nostalgic for the stability of Bretton Woods. "The monetary system has not been put back together in a way that really seems to satisfy anyone. And somehow we *are still complaining about unfair* military, aid and trade burdens."

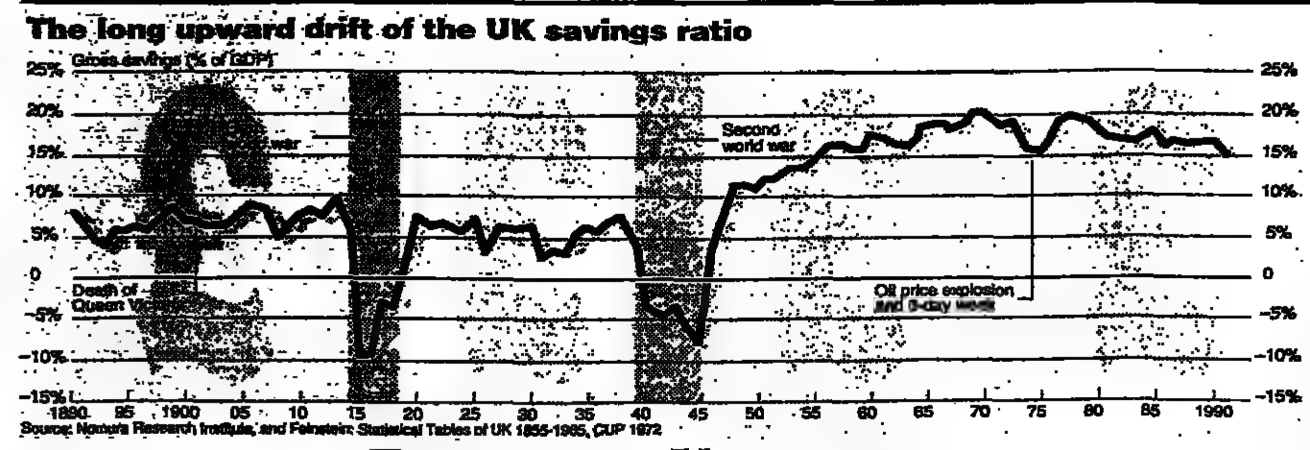
The book offers a fascinating account of the Plaza and Louvre exchange rate accords of the mid and late 1980s. *But it is clear that* neither author has much respect for these half-hearted attempts to co-ordinate policies. Mr Gyohten criticises Mr James Baker, then US Treasury Secretary, for aggressively pushing policies that were in the US rather than the global interest. "I am forced to argue that the pattern of policymaking did corrupt the fundamental long-term relationship between Japan and the United States," he writes.

Mr Volcker is a little more circumspect, but he too criticises the US for being "incapable of matching our action to our analysis". Both emphasise the failure to back exchange rate pronouncements *with concrete budget, trade or* structural policies.

Changing Fortunes ends on a somewhat pessimistic note. It was no accident, the authors argue, that the breakdown of Bretton Woods led to weaker growth, higher inflation and an increase in protectionist pressures. Yet they have little confidence that another era of stability can be established. The main reason is the immaturity of the world's biggest economy: lacking a firm commitment to either price stability or budgetary balance, the US is incapable of providing the necessary leadership. How frustrating for officials such as Mr Volcker who retain memories of brighter times.

Michael Prowse

The long upward drift of the UK savings ratio



Source: Nomura Research Institute, and Feinstein: Statistical Tables of UK 1855-1965, CUP 1972

ECONOMIC VIEWPOINT

Don't overdo the UK deficit hysteria

By Samuel Brittan

One advantage – *some may say disadvantage* – of an undergraduate education in economics some years ago is that one is unlikely to tremble with rage at a budget deficit, a supposedly low level of savings or similar examples of national fecklessness. The effects of budget deficits depend on the circumstances; and they cannot just be compared with a person with too much debt.

To illustrate my theme I shall be citing material from rival City analysts, who – for all my occasional strictures – do useful research, which should not be spurned because of the quotes extracted from them by the media on one month's figures.

I shall start with the reliable Michael Saunders of Salomon Brothers. He estimates that the UK Public Sector Borrowing Requirement this financial year is more likely to be £32bn than the £28bn published at the time of the Budget, because of revenue shortfalls from a slower recovery.

But you haven't heard anything yet. The deficit for the following year, 1993-94, admitted to be £32bn by the Treasury, will be more like £41bn according to Salomon. If Salomon is right, this will be due to slower economic growth than forecast and also because the company has a more pessimistic view of the tax yield of a given gross domestic product than the Treasury has.

Salomon puts the 1993-94 deficit at 6.3 per cent of GDP – more than twice the Maastricht guidelines, although the latter are probably meant to apply over a cycle as a whole. Adding back privatisation proceeds gives £46.5bn or more than 7 per cent of GDP.

It comes as an anti-climax after these horror stories that Salomon should be expecting public spending cuts of just £1bn to take effect next year. The cuts would carry through to later years, but there would be nothing further. Phillips & Drew, never to be outdone, talks about spending cuts plus tax increases totalling £9½bn per annum.

The interesting thing about the Salomon projections is that after pages on the gloomy fiscal outlook, we are told that the rise in public sector borrowing will be matched by higher private savings and lower credit demand. In addition a fall in the underlying rate of inflation to just over 3 per cent is expected next year. It does not quite say that gilt yields are bound to rise, but comes very close to doing so.

Another set of analysts, Mark Cliffe and Chris Dillow of the Nomura Research Institute explain why they are not worried about the financing of the deficit. Their view is that when economic activity is depressed the private sector will save more and that this will finance the budget deficit.

I am not advocating short-termism but merely avoiding a pretence to knowledge that we do not have

To my mind the most interesting chart in the Nomura paper is the historical one reproduced above. This shows that, for all its short-term fluctuation the gross UK savings ratio in the past three decades has been more than twice what it was before the first world war when gilt-edged yields were below 3 per cent. The relevance of this to budget deficits is that the latter make an extra call on domestic savings over and above the claims of business investment.

It is instructive to recall that the low 19th-century savings ratio did not inhibit economic growth. Nor did it prevent a current payments surplus from arising. The share of investment in those years was even smaller than the share of savings. In view of the growth record, this suggests that the productivity of capital has shown a long-term tendency to fall and this may be more worrying than any supposed savings shortage.

The problem with the analysis of historical statistics is that there is never a savings shortage or excess after the event. For the world as a whole savings have to be equal to investment – rather large statistical errors apart. For an individual country they can only differ through cross-border investment flows. The question is how any prospective gap is eliminated.

There is certainly no automatic tendency for higher budget deficits to drive up nominal interest rates. During the period since 1990 that large budget deficits have emerged as a problem, UK long term bond yields have fallen from nearly 12 per cent to about 9 per cent. Even in Germany where the swing of the budget into deficit has been very large and reflects medium term unification costs rather than recession, long term nominal rates have fallen slightly.

The problem is tackled from another angle by Tim Congdon in the April issue of the Gerrard & National Economic Review. Congdon was associated with the theory that deficits crowded out private investment. But the moral that Congdon draws today is not that a budget deficit is without impact, but that its impact depends on how it is financed.

If it is all fully funded – that is, met by the sale of gilts – he would not expect it to boost, or even sustain, activity. When full funding applies, the home or overseas public have to take up government securities, so that their holdings of cash and bank deposits remain the same.

Congdon argues, that for the deficit to be effective in sustaining activity, *some parts* must be met by the creation of money – or deliberate underfunding. In practical terms this means that the government would borrow stated and limited sums from the banking system through Treasury bills.

The net effect depends on what happens to the whole structure of interest rates. I cannot pretend to have worked out what would happen if the government were deliberately underfunding to boost the money supply, but also tried to limit any fall in short term interest rates to avoid weakening the ERM parity.

As no-one has a satisfactory model of how the monetary system works I cannot see that there would be any harm in reinstating some broad money supply guideline, which would be consistent with non-inflationary growth. Whatever it is, it would be higher than the 5 per cent recorded in the past 12 months. I have in mind a presumptive rule to be followed unless there are good reasons why not, rather than an iron rule to be followed in all circumstances.

The expert group advising the EC Central Bankers Committee is hard at work on broad money trends. So the UK would be in good company. The worst that can happen is that the money would pile up on deposit – that is velocity of circulation would fall – or that the rule would be overridden by the needs of exchange rate policy or other events.

Economic policy has suffered from the belief in known truths. It is time to move to a more sensitive analysis in terms of risks and opportunities. Of any economic claim we should ask: what is the worst that could happen if the holder is wrong? And what opportunities might we be missing if some rival theory is right after all? I am not advocating short-termism or that anything goes, but merely avoiding a pretence to knowledge that we do not have.

OBSERVER

New lady vanishes

■ What a pity that sweet stories aren't always true – the one about the Old Lady being run by a woman, for example. It seems that Sarah Hogg will not, in fact, take over from Robin Leigh-Pemberton as Governor of the Bank of England on his retirement *12 months hence*.

For one thing, as head of the prime minister's policy unit, she is too valuable to John Major for him to countenance her leaving 10 Downing Street. For another, although extremely able, she lacks the tribal City background so far deemed essential in the governor's job.

What is more, Major is well aware of the criticism he'd invite by putting one of his closest advisers in charge of the Bank at a time of growing pressure for it to be given greater independence. Indeed, if European economic and monetary union stays on track, the next governor will almost certainly have to stand free of Whitehall, Treasury opposition notwithstanding.

But the main reason why 46-year-old Hogg won't be taking up the governorship is simply that she doesn't want the job. Hence the *front-runners remain deputy* governor Eddie George and Warburgs' Sir David Scholey.

Even so, since no announcement of the successor is likely till around Christmas, there is still time for some more adventurous suggestions. Let's hope so, anyway.

Disconnection

■ Not everyone is impressed with Malaysia's efforts to promote itself as the champion of the poorer Third World countries, judging by the barrage of criticism coming out of the annual conference of The International Labour Organisation, just ended.

Malaysia's longstanding ban on unions in its electronics industry, in defiance of ILO rules governing freedom of association, was roundly condemned by both rich and poor countries. To add to the embarrassment, Ahmad Mohammed Idrus, Malaysia's government representative, was halted in mid-speech for over-running his time defending his country's anti-union policies.

Head case

■ A distress warrant with a difference has been served on the Irish legal profession by justice minister Willie O'Dea. He's told barristers that if they don't give up wearing wigs in court voluntarily, he'll scalp them statutorily with new legislation.

O'Dea objects to the wigs as "an intimidatory feature".

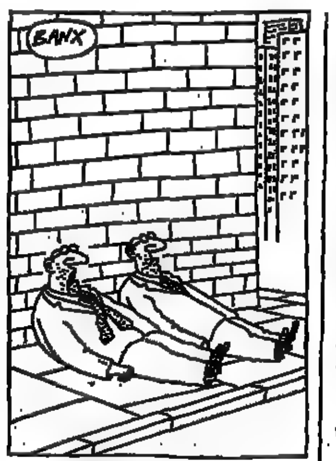
Cheap option

■ What price Britain's presidency of the European Community? Not the minting of a special set of Ecu coins – the customary way for member countries to mark their stewardship.

John Major's government is breaking the mould, perhaps reflecting the seriousness with which the UK government takes its opt-out clause from the single currency envisaged in the Maastricht Treaty.

Instead, for all the talk about keeping Britain at the heart of Europe, what it will hand out on its assumption of the presidency next Wednesday will be a 50p coin, commemorative issue, of course.

An insider at the Royal Mint says it would have "loved" to strike an Ecu coin for sale to collectors, but Chancellor Lamont – Euro-sceptic architect of the Maastricht opt-out – vetoed the idea. Maybe the 50p alternative struck him as a bargain price to pay for keeping calm among anti-federalist Tory backbenchers.



"This is the part of underwriting I hate"

Bye-bye Brown?

■ Never mind the quality, feel the name. This seemed to be the motto of many of the entrepreneurs who were chasing up the share prices of London's small merchant banks only a few years ago.

However, times have changed, and owning a famous nameplate no longer attracts quality business the way it once did – otherwise Brown Shipley would not be thinking of selling its 182-year-old merchant bank to Kredietbank, its biggest shareholder.

Montagu Norman, the most famous governor of the Bank of England, used to work at Brown, Shipley & Co, as did ex-premier Sir Edward Heath. In its heyday Brown Shipley was one of the great transatlantic banking partnerships, on a par with the House of Morgan. Alexander Brown, a Belfast linen merchant, had emigrated to Baltimore; his firm remains a force in the business as does New York's Brown Brothers, Harriman which for over 100 years was part of the London firm.

It's a great pity – but Brown, Shipley & Co has long since drifted off course and seems to be following into retirement other once famous names like Arbuthnot Latham, Antony Gibbs, Seligman Bros and Wm Brandts. The name may linger on, but perhaps not much else.

Postman wanted

■ This week's rather good results from the Post Office cannot disguise the fact that the government still has the problem of finding a new boss for its biggest nationalised industry. Chairman Sir Bryan Nicholson goes part-time in October and will bow out next March and there has not been a whisper of his replacement.

Bill Cockburn, boss of Royal Mail at 49, and John Roberts, the 47-year-old head of PO Counters, are the obvious internal candidates. However, as all the previous chairman have been imported, there's a good chance the private sector will be tapped again.

But if the government is going to lure the right replacement it is going to have to do something about the starting salary. Even after his latest rise Nicholson gets only £170,000 a year – a mere pittance compared with the BT chairman's earnings.

Stumped

■ Cricket commentator Brian Johnston, 80 yesterday, says as you get older three things happen. "First, your memory goes, then.... Sorry, I've forgotten the other two."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

LSE right to move to County Hall

From Mr J M Ashworth.

Sir, I write in response to Mr Burt's letter (June 23) on the London School of Economic's bid for County Hall.

We are not asking the government to give us County Hall. Rather we are seeking access to the site and to the information which we need in order to finalise a bid that will give us the space we need to expand (currently we have 25 per cent more students than the accepted university grants committee norms); to develop the research-led, post-graduate teaching activities which will be needed as the UK develops a mass system of higher education; *to respond to demands for* greater interaction with the commercial life of London by developing an "International Social Science Park" and in other ways and to expand our post-graduate management education activities.

We feel that this makes perfect financial sense and are confident that we can demonstrate this.

We agree that our standing in the future will be a function of the quality of our teaching staff and students and it is to preserve that quality that we need more space. It is not the grandeur of the County Hall that attracts us, it is its location and its size.

J M Ashworth,
director,
London School of Economics and Political Science,
Houghton Street,
London WC2A 2AE

US public servants do not chase fat cats

From Mr James Morgan.

Sir, We learn from David Goodhart and Michael Smith ("Playing catch-up with the private sector fat cats", June 23) that Britain's public servants deserve far more money if they are to stay in the same league as their colleagues in the private sector.

I had assumed that the words "public service" and "job security" meant something – can one imagine a judge getting the sack for incompetence? So one has to look abroad to see if noble traditions survive. They do – in the US, a supreme court judge gets $86,344 a year at current exchange rates. General Colin Powell, with allowances, gets $87,211.

James Morgan,
20 Rectory Road,
London SW13 0DT

An insensitive generalisation

From Mr Patrick McGrath.

Sir, I should like to object in *the strongest terms to remarks* made by Malcolm Rutherford in his review of As You Like It (Arts, June 18). Commenting on the performance of Bette Bourne as Jaques, Mr Rutherford states that there is an "underlying suggestion" that Jaques is suffering from "some fatal disease, quite probably Aids".

The patent leap in your reviewer's mind from the actor's deliberate choice of a campy, languid persona in his interpretation of Jaques to homosexuality, to Aids, displays an appalling insensitivity. Such a generalisation, made on such insubstantial evidence, is profoundly offensive – and not only to people whose lives have been directly affected by Aids.

Patrick McGrath,
122 Kennington Road,
London SE11 6RE

Arthritis and efficiency

From Mr R E Gutch.

Sir, Arthritis Care is totally *in favour of improving efficiency*, in or out of hospital, but your article, "Call for greater hospital efficiency" (June 23), caused many wry smiles here. Most people with arthritis can walk, but only for short distances and with pain. Some of them find that attending hospital out-patient departments can cause more pain and damage to their joints than the treatment they receive alleviates.

If Andersen Consulting's research results in a patient with arthritis having shorter journeys from the car park to the out-patients and then to the pharmacy, many of the 10m people with arthritis in the UK will be deeply grateful.

R E Gutch,
chief executive,
Arthritis Care,
18 Stephenson Way,
London NW1 2HD

Righting the wrongs of pensions

From Mr Mark Rittner.

Sir, Your leader "Pensions after Maxwell" (June 20) and its warnings are timely.

There is very much more wrong with the pensions world than the issues of custodianship, and the ownership and control of pension funds and their surpluses (if any).

For all their well-meaning aims, the Fowler reforms have been a bureaucratic nightmare and have lead to administrative chaos. As pensions became more attractive (solely because of the tax breaks available) so governments have had to devise ever more convoluted (and expensive) rules to *prevent individuals and companies* from having too much of a good thing. An entire government department, countless actuaries, lawyers and even accountants have as their *raison d'être* the policing and restriction of pension contributions and benefits. In addition, the failure of government to oblige employers to fund employees' personal pensions when they do not wish to join a company scheme has reinforced the corporatist approach to pension provision and discouraged individual initiative. And why retain tax relief in its present forms?

The setting up of the Goode Commission offers a marvellous opportunity for these issues to be explored and for the fundamental assumptions of the last 40 years to be questioned. One of the most attractive features of the Thatcher era was the challenge to vested interests. Having appointed a very distinguished lawyer to be chairman of this commission, the secretary of state will surely resist the temptation to pack the membership with pensions industry establishment figures whose life-long habits of thought have inhibited them from thinking anew and creatively about old problems.

Mark Rittner,
Rathbone Brothers,
University House,
Lower Grosvenor Place,
London SW1W 0EX

Parties which came out ahead in Maxwell affair

From Mr Crispin Drummond.

A curious silence from one corner of the City prompts a comment about one element of the Maxwell affair that Bronwen Maddox has not explored: who came out ahead?

Aside from amounts retained by the Maxwell family interests, and advisers' fees, most of the missing £900m-odd was paid across in 1990-91 ultimately to *bona fide* shareholders exiting Maxwell Communications Corporation and Mirror Group Newspapers. These investors had originally taken the decision to back Robert Maxwell and his companies, and in the absence of willing buyers for their shares they should by rights have incurred the full consequences of corporate failure. But the share support operations enabled them to avoid such a fate, by benefiting from the receipt of hot money taken from MGN pensioners and others.

There is of course no obligation for shareholders who should have lost out, but didn't, to reimburse those that shouldn't, but did. But it is important to identify where most of that missing money went, and to reflect that at least some parties – including eventually some pension funds – did comparatively well out of the Maxwell affair.

Crispin Drummond,
11 Clifton Road,
Winchester,
Hampshire

FINANCIAL TIMES
Thursday June 25 1992

Bush applies the heat to Perot

By Jurek Martin in Washington

THE REAL sub-plot of the US presidential election this year became clear beyond a shred of doubt this week. Its resolution may well determine who becomes the next president.

There is no longer a "phony" war between President George Bush and Mr Ross Perot. The extent of Mr Perot's personal antipathy towards the president, always a factor in his independent proto-candidacy, has now been laid bare and Mr Bush, perhaps reluctantly but realistically with no alternative, has begun to respond in kind.

Governor Bill Clinton, the presumptive Democratic candidate, trailing both in the polls, has been consigned for the moment to the sidelines, a not unfamiliar place for him as the Perot phenomenon has gathered pace.

But that may not be the worst place to reside as the two Texans, one born, one adopted, battle it out. While it carries the risk of being marginalised, it also contains the prospect of picking up the pieces. Mr Clinton may even come to be seen as the voice of policy-orientated reason.

For the first time in his extraordinary rise, Mr Perot is genuinely feeling the political heat.

The raft of stories about the private investigations he has ordered into the lives of those who have displeased him or competed with him, including Mr Bush and his family, have put him on the defensive.

Yet his hurriedly arranged response, typical for one of such a combative nature, has been to fight fire with fire. His target is the "Republican dirty tricks committee" and its "propaganda", which he denounced yesterday as worthy of Josef Goebbels.

Mr Perot continues to protest that he has only the "kindest, warmest feelings" for Mr Bush and his family.

But, with the next breath, he dismisses Mr Bush's own anger about the alleged investigations as "a total act". Neither comment conveys much respect for Mr Bush as a person.

Mr Clinton gets barely a nod in the Perot tirade. Yesterday he shrugged off the Democrat's latest detailed economic policy blueprint as "a soundbite," but then reneged on his own promise to come up with substantive policy positions soon.

This threatens to be a problem for Mr Perot and a weapon for Mr Bush and Mr Clinton. Recent polls have shown growing public scepticism of Mr Perot, though it has not yet reached the levels of the other two candidates. But the assumption is that, sooner or later, the public will want to know what he would do as president beyond "clean out the barn and throw out the trash" in Washington.

All the polls show that the Perot populist appeal is strongest in what Mr Bush had considered his territory – the southwest and west. Mr Mervyn Field, the California pollster, puts Mr Perot ahead in all the states west of the Mississippi except the northern farmbelt, Hawaii and Mr Clinton's Arkansas.

It is therefore incumbent on the Bush campaign to deflate the Perot balloon as soon as possible. A slow fade might actually help Mr Clinton, who is not so far behind the other two as to be out of it. If Mr Perot's support gradually declines to the 10-15 per cent range, then most of this would come from the Bush camp.

Of course, Mr Perot might defy the laws of political physics, as he has so far. But it is obvious he will only do so by being physical – with Mr Bush.

Ross Perot yesterday bluntly accused President George Bush of orchestrating a "Republican dirty tricks committee" designed to discredit his independent candidacy for president. Recent accusations against him would "make Hitler's propaganda chief proud", Mr Perot said.

Details, Page 6

EC close to deal with Britain on working hours

By David Gardner in Luxembourg

THE UK last night was on the point of reaching a compromise with its EC partners on European Community-set limits to working time which it had previously said it could never accept.

Britain secured a partial opt-out on introducing the 48-hour maximum working week. Under the compromise, the UK would get a 10-year grace period on the 48-hour week, while the other 11 must introduce the measure within three years.

In Britain's case, the Council of Ministers would "review" the situation after its additional seven-year grace period, leaving open the question of whether the UK adopts it even at that stage.

Britain would, however, for the first time have to provide legal protection for workers who did not wish to work more than 48 hours, and to bring in legislation on mandatory time off.

The open-ended solution followed negotiations on Tuesday between Mrs Gillian Shephard, UK employment minister, and Ms Martine Aubry, the French labour minister.

A final agreement was being held up last night by a disagreement between France and Germany. But this did not overshadow the wish of member states to show a united front – even on such a sensitive issue – because of the uncertainty over the Maastricht treaty after its rejection by Denmark, and before tomorrow's Lisbon summit of EC heads of government.

At the same time, the outline agreement is the first practical instance of the UK and its 11 partners reproducing in law their split on social policy at Maastricht. Then, the 11 opted to pursue their more ambitious social policy aims through a protocol to the treaty, leaving the UK subject to existing treaty provisions.

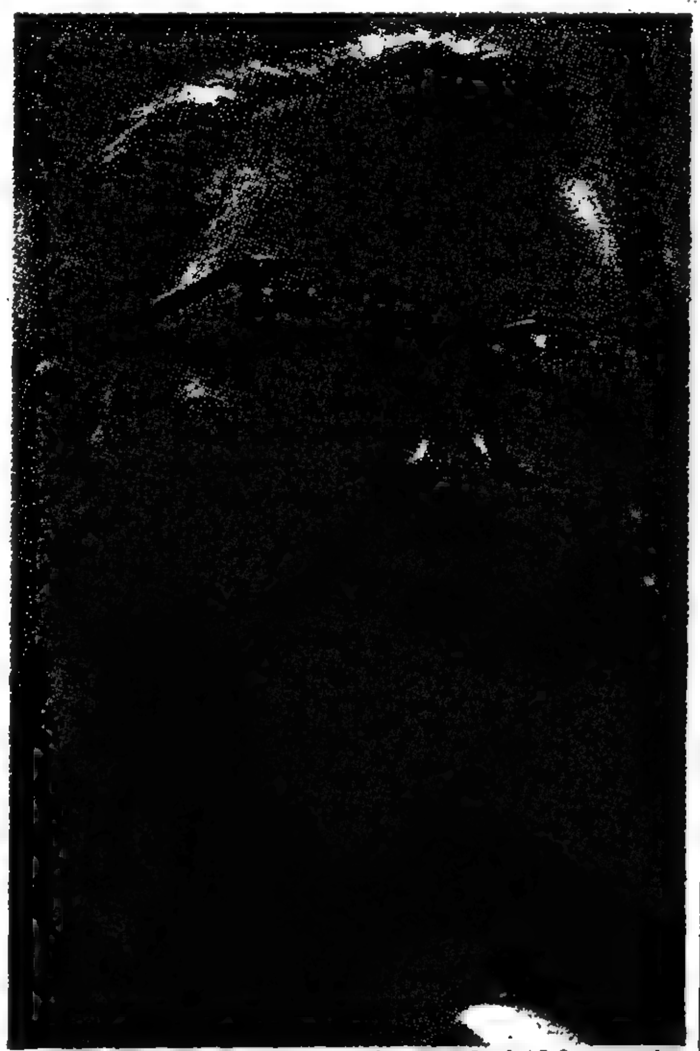
Germany and France, which had pulled out all stops to rescue the UK from being isolated over the directive, themselves disagreed over the number of months over which the 48-hour week should be averaged.

France did not want a reference period of more than four months but Germany argued for six months.

To accommodate the UK, the directive will allow people in all member states willing to work over 48 hours to do so, but give those who do not want to exceed this full protection under the law. Employers would have to keep records of both groups.

UK legislation, to be brought in within three years, would make a 48-hour limit the target, subject to these supposedly transitional exemptions. It would also introduce statutory rights to 11 consecutive hours of rest a day; 35 consecutive hours of time off in each week; an eight-hour average limit on night-shifts; and four weeks' paid holiday a year.

Fall in support for Maastricht, Page 2



EC president Jacques Delors publicly apologised for warning Denmark it may lose subsidies if it failed to ratify the treaty

ANC reject de Klerk's call for talks

By Michael Holman and Philip Gawith in Johannesburg

SOUTH Africa's political crisis deepened last night as the African National Congress angrily rejected President F.W. de Klerk's call for a two-day meeting to break the impasse in the country's peace process.

In a statement issued three hours after Mr de Klerk's attempt to defuse the tensions that have built up since last Wednesday's Boipatong massacre, the ANC said the proposed meeting "will serve no useful purpose".

"Once more the National Party has shown its lack of appreciation of the depth of the national crisis it has plunged the country into," said the ANC.

Earlier Mr de Klerk, who had cut short a visit to Spain to preside over yesterday's day-long cabinet meeting, said he had been "deeply disappointed" at the ANC's decision on Tuesday night to withdraw from constitutional negotiations, and said the government would try to put the peace process back on track "as soon as possible".

Mr de Klerk went some way towards meeting ANC demands for an international inquiry into the massacre of 42 people in Boipatong, a township near Johannesburg.

He announced that "a person of international repute" would join the Goldstone commission, which is already planning to investigate the massacre. The commission, headed by a respected South African judge, is a standing inquiry into political violence, which has already been critical of the security forces' behaviour. Mr de Klerk added that the police would also welcome an international observer to evaluate their investigation into Boipatong.

This was the only concrete response, however, to the ANC's terms for resumption of talks which ended in deadlock last month.

Mr Nelson Mandela, the ANC president, said on Tuesday the negotiations could not resume until the government agreed to allow an international inquiry into the massacre, to prosecute security force members involved in violence, to ban the carrying of weapons in public and introduce other measures to bring peace to black townships.

In Pretoria Mr de Klerk vigorously defended the security forces against ANC allegations that they had been complicit in the Boipatong tragedy, and was strongly critical of ANC plans for "mass action" in the form of strikes, rallies and demonstrations, saying it was an obstacle to negotiations. Describing Mr de Klerk's criticism as "ludicrous in the extreme", the ANC statement went on to renew its allegation that the "campaign of violence is aimed at preventing the people from undertaking legitimate protest".

In advance of last night's statement, the ANC yesterday called for the reimposition of the sports moratorium. In a statement signed by Mr Steve Tshwete, the ANC official instrumental in South Africa's readmission to world sport, sports bodies were asked to postpone plans for participation in international sport "until the country is firmly on a road to democracy".

Back from the brink, Page 12

Tobacco ruling gives the go-ahead to some claims

Continued from Page 1

that the defendants had failed to warn adequately about the health dangers of smoking and fraudulently misrepresented the risks – were precluded by the federal labelling law.

But they also said claims brought on other grounds – such as intentional misrepresentation by the tobacco companies – should be allowed to proceed.

The ambiguities in the ruling caused confusion on stockmarkets in London and New York. In London, shares in BAT Industries initially fell 38p but rallied later to close 26p down on the day at 731p. Rothmans International was 19p lower at 1091p.

In New York, shares in RJR Nabisco fell to $8¾ at one stage, but recovered to close down $⅛ at $9⅛. Philip Morris closed up $⅜ at $73⅜.

Philip Morris, whose brands include Marlboro, claimed that the decision was "a significant victory". It noted the court had held that smokers cannot sue on the grounds that they were not adequately warned of the risks of smoking after the 1969 legislation had been enacted.

"While the court failed to hold that claims based on breach of express warranties or intentional misrepresentations are pre-empted, this should have little practical effect on the litigation", the company said.

But Action on Smoking and Health (Ash), the Washington-based lobby group, claimed the ruling "should breathe life" into some of the 50-odd smokers' suits that are still outstanding.

World Weather

		°C	°F			°C	°F			°C	°F
Ajaccio	T	19	66	Boulogne	C	15	59	Frankfurt	F	21	70
Algiers	S	26	79	Brussels	F	20	68	Geneva	F	20	68
Amsterdam	F	19	66	Budapest	F	27	81	Gibraltar	S	25	77
Athens	S	30	86	Buenos Aires	C	14	57	Glasgow	C	17	63
Bahrain	S	36	97	Cairo	S	33	91	Helsinki	C	16	61
Bangkok	F	34	93	Cape Town	F	14	57	Hong Kong	F	31	88
Barcelona	F	21	[illegible]	Caracas	C	30	86	Innsbruck	F	23	73
Beijing	S	25	77	Casablanca †	F	22	72	Inverness	F	19	66
Beirut	S	26	79	Chicago †	S	13	55	Islamabad	F	39	102
Belfast	F	19	66	Cologne	F	19	66	Istanbul	[illegible]	27	81
Belgrade	S	31	[illegible]	Copenhagen	S	21	70	[illegible]	R	34	[illegible]
Berlin	S	23	73	Corfu	S	29	84	Johannesburg	S	[illegible]	[illegible]
Biarritz	F	18	64	Dallas †	[illegible]	22	72	Lisbon	S	24	[illegible]
Bombay	F	30	86	Dublin	C	18	64	London	C	19	66
Bordeaux	F	20	68	Dubrovnik		–	–	Los Angeles †	Fg	16	[illegible]
				Edinburgh	S	19	66	Luxembourg	C	19	66
				Faro	S	21	70	[illegible]	C	21	70
				Florence	F	23	73	Madrid	S	21	70

		°C	°F			°C	°F			°C	°F
Majorca	S	23	73	Oporto	S	18	64	Tenerife	F	18	64
Malaga	S	26	79	Oslo	S	23	73	Tokyo	C	[illegible]	[illegible]
Malta	S	27	81	Paris	C	[illegible]	[illegible]	Toronto †	C	12	54
Manila	C	34	[illegible]	Prague	F	18	64	Tunis	S	28	82
Melbourne	C	15	[illegible]	Reykjavik	C	7	45	Valencia	S	26	79
Mexico City	F	[illegible]	[illegible]	Rhodes	S	[illegible]	[illegible]	Venice	F	24	75
Miami †	C	[illegible]	79	Rio de Janeiro	F	30	[illegible]	Vienna	F	24	75
Milan	C	21	70	Rome	F	25	77	Warsaw	C	[illegible]	[illegible]
Montreal †	F	14	57	Salzburg	F	24	75	Washington †	F	[illegible]	[illegible]
Moscow	F	18	64	S'Francisco †	F	15	59	Zurich	T	21	70
Munich	C	19	66	Seoul	C	25	77				
Nairobi		–	–	Singapore	F	31	88				
Naples	F	27	[illegible]	Stockholm	C	19	[illegible]				
Nassau	C	31	87	Strasbourg	F	25	77				
New Delhi	C	36	[illegible]	Sydney	S	14	57				
New York †	[illegible]	17	63	Taipei	F	32	90				
Nice	F	21	70	Tangier	F	21	70				
Nicosia	S	28	82	Tel Aviv	S	28	82				

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

THE LEX COLUMN

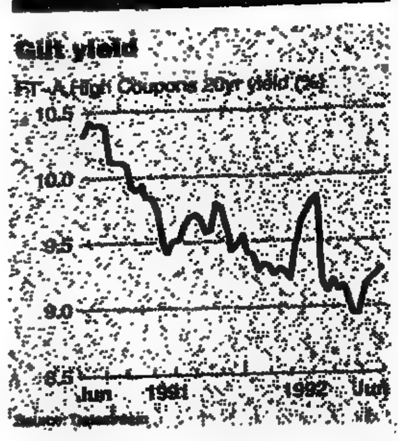
Signals in the smoke

Nineteenth-hole talk at Turnberry – venue of a major BAT Industries golf day – was no doubt dominated last night by the long-awaited US Supreme Court ruling on liability claims against the tobacco companies. Fears that the verdict might open the floodgates to a spate of new civil suits initially knocked seven per cent off the BAT share price – dragging a still jumpy UK market down with it – but the stock ended just 26p lower at 731p as London took belated heart from Wall Street's less panicky response.

Contrary to some early reports, it seems the Supreme Court has thrown out many of the potentially more damaging claims. At stake was whether plaintiffs can sue a company on the grounds that manufacturers had failed to give adequate warning of the risks – an issue on which federal law and three states have hitherto been in conflict. Yesterday's decision appears to imply that this will not be allowed in respect of claims arising after 1969, the date of an amendment to the 1965 US legislation which required health warnings to be put on every cigarette packet. Obviously, some suits pre-date that deadline – and it is possible that previously unsuccessful cases could be re-opened were a juicy award to be made – but it is hard to dispute the industry's early claim that it has scored a victory, not a defeat.

Even where cases do proceed on this basis, plaintiffs still have to convince a jury, confront the reality that the causal link between smoking and cancer has never been established in a court of law, and overcome the ultimate defence that death or injury may have been caused by someone else's brand. The anti-smoking lobby will no doubt keep up the attack on other fronts – but even a gloomy scenario of 20 $10m awards a year would only cost a cent on a packet of cigarettes or a fraction of the industry's profits.

FT-SE Index: 2532.6 (-28.0)



Gilts

Some recent worries about government funding must have been dispelled by yesterday's £2.75bn gilts auction. Though the total was covered 1.62 times by bids – the lowest since auctions started in April last year – it was still well above worst fears. The lack of spread between the average bid yield and the highest accepted yield indicates a fairly heavy concentration of demand around the auction price. The cover ratio would only have been really worrying if a large number of bids had been below the market.

The still better news for Mr Lamont is that the auction revealed continuing demand from domestic investors. Overseas buying of gilts has never been as large as expected since the election and appears to have been even more muted since Danish voters rejected the Maastricht Treaty. The 20-year maturity on yesterday's auction was never likely to appeal to foreign investors anyway, but domestic institutions clearly rose to the occasion even though this may have been at the expense of the equity market.

The gilts market may thus not have all that much to fear from the funding consequences of low growth. Confirmation that GDP fell by 0.5 per cent in the first quarter may set off another round of forecast downgrading for the year as a whole. But a weak economy with low inflation is likely to drive switching out of equities and into gilts at a pace faster than the rise in the borrowing requirement. A one percentage point decline in growth expectations for the year as a whole implies extra government borrowing of only £4bn – less than yesterday's total bids.

Travel industry

After Tuesday's interim figures from Airtours, yesterday's 85 per cent increase in annual profits from Hogg Robinson suggests the travel industry is springing into life. There is a danger of exaggeration, however. Hogg Robinson's results, which in any case depend more heavily on business travel than the leisure market, follow a year beset by the Gulf war and loss of commissions on holidays booked with the now defunct ILG. Airtours' figures reveal little about the all-important summer season.

Total summer holiday bookings through May were up an estimated 30 per cent for the market as a whole, a large part of the increase simply reflecting bounce back from Gulf war weakness in 1991. Hogg Robinson says its leisure bookings are up eight per cent by volume and one per cent by price since the end of March. Airtours' market share is growing, but the question is how margins look at the end of the day. That depends on the extent of discounting during the late booking period now getting under way.

Industry estimates suggest there may be excess capacity in the market of some 200,000 to 400,000 holidays, depending on how normal take-up is defined. That is not excessive by industry standards, but it still leaves room for discounting by operators seeking to buy market share. Thomson's share of the summer package market is still some 14 points ahead of both Airtours and Owners Abroad. But at the end of May, it was also below 30 per cent, a level with which it cannot feel entirely comfortable.

Lloyd's

It is not much comfort for those members confronted by the reality of their losses at yesterday's annual meeting. But there is evidence that Lloyd's is not as fragile as the critics insist. The market's solvency has improved – as measured by the 13 per cent increase in the society's resources – and premium rates have risen over the last three months in most of the main business classes. Things may just be looking up.

Liberty

The Stewart-Liberty family and Mr Bryan Myerson of Concerto Capital Corporation arguably deserve each other. One would certainly not seek to defend non-voting shares, or even Liberty's recent trading record. But the appeal to high principle which forms part of Concerto's attempt to enfranchise Liberty shareholders – including a liberal quote from the Cadbury report on corporate governance – strikes a discordant note. Mr Myerson may make his turn one day, as he did a couple of years ago when Aquascutum sold out to the Japanese. But no one should shed any tears if he gets stymied by the Liberty family's united front and the present lack of Far Eastern interest in upmarket UK retailing.

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INSIDE

Toshiba switches off its audio line

Toshiba, the big Japanese electronics combine, has discreetly pulled out of making audio equipment. No factories have been closed or jobs cut but the operations have been quietly subsumed into the group's television and video products business. The move out of audio is a sign of the way Japanese groups are having to respond to a worldwide recession in the electronics industry and a sharp increase in the cost of capital. Page 18

German steel shares undented

German steelmakers have done well in the equity market this year in spite of being stuck at the bottom of the worldwide cyclical slump. Even after profit-taking over the past week, Hoesch, Klöckner-Werke and Thyssen are standing nearly 20 per cent above their lows for the year against a 10 per cent differential for the FAZ index. Back Page

Single EC share market nears

A single EC market in securities trading moved closer yesterday with a compromise proposal on the investment services directive. Spurred by the accord on capital adequacy standards for EC banks and securities firms, the Portuguese have suggested a rolling system averaging out information about prices and volume over six hours and delaying publication for a further two hours. Page 19

Nobel Industries falls 31%

Nobel Industries, the Swedish chemicals and defence group, suffered a 31 per cent drop in its profits (after financial items) to SKr136m ($24m) from SKr197m in the first four months of the year. Sales fell 7 per cent to SKr7.038bn from SKr8.179bn in the same period. Page 16

Ghana's golden years

Ghana's meteoric gold boom continues unabated as a result of stable economic policies and massive investment in one of the least developed high-potential gold belts in the world. The Minerals Commission says production surged 56 per cent last year to 844,874 troy ounces. Page 40

BfG's future in the balance

Over recent weeks bankers and insurance executives have been holding secret meetings in Paris and Frankfurt. At stake is the fate of BfG Bank, Germany's sixth biggest private commercial bank – and ultimately the independence of Aachener und Münchener Beteiligungs, majority owner of BfG and Germany's second largest insurance group. Page 16

French state chiefs keep jobs

The chairmen of seven French state-owned companies were yesterday re-appointed for fresh three-year terms by the cabinet, which also confirmed the change of leadership at Bull, the loss-making computer maker. Page 16

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Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Lahmeyer	794	+	24	Avd Entrepr	709	+	27
Leifheit	476	+	11	Club Med	472	+	12
Philips Kommun	640	+	10	Pernod Ricard	1610	+	48
Falls				**Falls**			
AG Ind & Verk	703	−	11	Eridania B-Say	669	−	19
Rheinelektra	1060	−	30	Immobanque	597	−	27
Schmalbach Lub	547	−	12	Navigation Mixt	1010	−	37
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
IBM	97⅝	+	1¾	Nihon Seima	220	+	20
Philip Morris	73¾	+	⅝	**Falls**			
Weyerhaeuser	34⅜	+	1⅛	Crown	352	−	38
Falls				Daido Kogyo	580	−	70
RJR Nabisco	89	−	⅛	LEC	23	−	4
Syntex	33	−	1¾	Nippon Formula	601	−	71
Telefonos	42¾	−	1⅞	[illegible]	821	−	79
LONDON (Pence)							
Rises				First Natl Fin	[illegible]	−	5
BSGInt.	66	+	2½	Fisons	211	−	13
Cassidy Bros.	78	+	12	Granada	255	−	11
Hogg Robinson	220	+	7	Henlys	55	−	22
Lee (A.)	98	+	6	Pearson	380	−	23
Prov. Financial	527	+	19	Redland	498	−	12
Waterhouse	43	+	10	Rolls Royce	155	−	6
Falls				Rothmans B	1091	−	19
Airtours	253	−	13	Sun Alliance	299	−	9
BAT Inds	783	−	24	Vickers	139	−	8
Brit Aero	250	−	17	Wellcome	913	−	18
Cowie (T)	145	−	9				
Fastback	32	−	5				

Medical charity expected to reduce holding in UK drugs group to about 35%

Wellcome sale may offer up to 330m shares

By Maggie Urry in London

WELLCOME TRUST, the medical *charity, is expected to indicate* today that it will sell about 320m to 330m shares in Wellcome, *reducing its stake in the drugs* group to about 35 per cent, in the global offering scheduled for next month.

Robert Fleming, which is co-ordinating the issue, is understood to have received good indications of interest in the issue, particularly from UK investors, but also from the US.

Wellcome Trust holds 73.5 per cent of Wellcome, which went public in 1986. It said in March it wanted to reduce its stake to below 50 per cent, although it aimed to retain a 25 per cent *holding as a long-term investment*. A reduction to 25 per cent would involve the sale of 417m shares, worth £3.8bn ($7.1bn) at yesterday's closing share price of 913p, down 18p.

Fleming is to employ the "green shoe" mechanism, whereby a further 15 per cent can be sold. This allows the merchant bank to over-allot shares which it can then buy from Wellcome Trust or it can buy shares in the after-market to stabilise the price. Full use of the green shoe would mean a further 50m shares being sold, taking the total available to around 380m. If demand for the issue continues strong, the deal could also be increased, possibly to the 417m share maximum.

It is thought that UK investors will be allocated roughly half the *shares available, with the US tak*ing a quarter. The remainder would be spread between the regional syndicates in Japan, France, Germany, Switzerland, the Pacific Rim and the rest of the world.

That would still leave Wellcome with a lower percentage of its shares held in the US than rivals such as Glaxo. Only about 2 per cent of Wellcome's shares are held in North America while 45 per cent of its turnover was made there in 1991.

The group hoped the share sale *would increase the proportion of* its shares held in the US and it is seeking a New York Stock Exchange listing as part of the sale.

There has been some nervousness about new issues recently as the UK and Japanese stock markets have weakened. Last week, GPA cancelled its flotation at the last minute but analysts say GPA's issue was an entirely different animal to the secondary offering of Wellcome shares.

The indicated figure of the number of shares to be sold will *be fine-tuned once the bidding* process begins. The formal marketing campaign for the issue starts today.

Under the timetable for the issue, the *offer period* will open on July 6 and a closing date will be set two to three weeks later. The tender book-building process will begin with investors putting in indicative bids for the number of shares they are prepared to buy at certain prices to regional syndicate managers. After the close of the tender period, a price will be struck which will be the *basis for a UK public offer.*

Market report, Page 29

The Globex after-hours trading system starts today, **Barbara Durr and Tracy Corrigan** report

The future comes into focus on screen

A new trading system for futures and options *launched today could* mark a turning point in the shift towards greater automation of financial markets.

Globex, the international after-hours screen trading system, has been five years in development, at an estimated cost of close to *$80m. An exuberant Mr Leo* Melamed, head of Globex, is hailing the debut as "the dawn of a new era".

But scepticism about the short-term impact and long-term success of Globex remains rife. There are questions about its *ability to handle fast and com*plex futures markets with the same efficiency as the raucous but effective open-outcry trading pits.

Initially, 140 terminals in Chicago, New York, London and Paris will link up on the system, *jointly developed by Reuters and* the world's largest futures exchanges, the Chicago Mercantile Exchange and the Chicago Board of Trade.

The system is designed to complement the traditional open-outcry technique for trading *futures and options contracts*, in which traders yell and hand-signal prices to each other on a trading floor. Globex will provide an order-matching system for these products when trading floors are closed. For example, the 10-year Treasury futures con*tract listed on the CBOT, one of* the first products to be traded on Globex, can now be traded during European trading hours, when the Chicago exchange is closed.

As fund managers become increasingly geared towards a global investment strategy, demand for liquid markets in key *products through various time* zones will boost "after-hours" trading, concentrated on Globex – or so the theory runs. However, there are doubts about the level of demand for overnight trading: the concept of globalisation, a buzz-word in the 1980s, *has failed to take off as expected*, and liquidity remains concentrated in domestic markets.

Reuters, which contributed an estimated $75m to the development costs of Globex, is banking on the expansion of the system to cover the whole range of finan*cial instruments, including bonds* and equities.

However, its investment in Globex should be seen in the context of a research and development budget of around £70m ($129.5m) a year. Other projects, notably Dealing 2000, Reuters' *foreign exchange dealing system* launched earlier this year, have involved far greater investment.

Leo Melamed: new era dawns

Globex taps a trend towards greater automation – as can be seen by changes in the world's stock markets. "I don't believe anyone in the business thinks that electronic trading isn't coming," says Mr Bud Frazier, a veteran grain trader.

Many brokerages, which earn their money from executing trades, are begrudging towards Globex, arguing that margins on futures executions are already slim because of competition; and most independent floor traders, known as locals, who make their *living screaming and jostling in* the pits, regard Globex as an encroachment on their territory.

The system has the potential to offer greater efficiency and cost savings. Mr Gary Ginter, managing director of Globex, points out: "A trader at a single screen can *access three major markets con*taining eight leading contracts", creating savings for businesses in the longer term. However, some executives familiar with the system doubt its ability to cope with a heavy flow of business in volatile markets.

Nevertheless, many businesses say the system has sparked interest among clients. "We have to take the system, to stay abreast of our competitors," said one futures executive. Although the initial investment may deter some companies, many conclude *that the structure of costs*, salaries and commissions are edging them towards greater automation.

Even enthusiasts such as Mr Jack Wing, chief executive officer of Chicago Corp, a large futures brokerage which has signed on for several Globex terminals, expects trading volume – beyond a burst in the initial days – to be slow. But, in time, says Mr Wing, "we're quite optimistic *that Globex will be an important* part of the landscape".

Chicago Corp already has a round-the-clock trading desk and the jump to Globex is less strenuous. Other brokers will use Chicago Corp to access Globex rather than invest on their own. "We're *committed to 24-hour* trading, some are not," said Mr Wing.

For the CME and CBOT, Globex is an opportunity to win back some market share lost in the past decade to budding European exchanges. Mr William O'Connor, *chairman of the* CBOT, told exchange members last week: "Globex will become a tool that we will use to defend our market share."

Chicago has never lost sight of this purpose in spite of its drive to draw in other exchanges as partners. Among foreign exchanges, only the Matif of Paris has joined. Negotiations are under way with the Sydney Futures Exchange and the Deut*sche Terminbörse in Germany.* London's Liffe, which balked at the conditions offered by Globex, continues to express an interest in the system, but is also considering developing its own APT after-hours trading system.

F*our New York exchanges,* though not the important New York Mercantile Exchange which trades crude oil and other energy products, have agreed in principle to join the system. Nymex is developing its own system, Access.

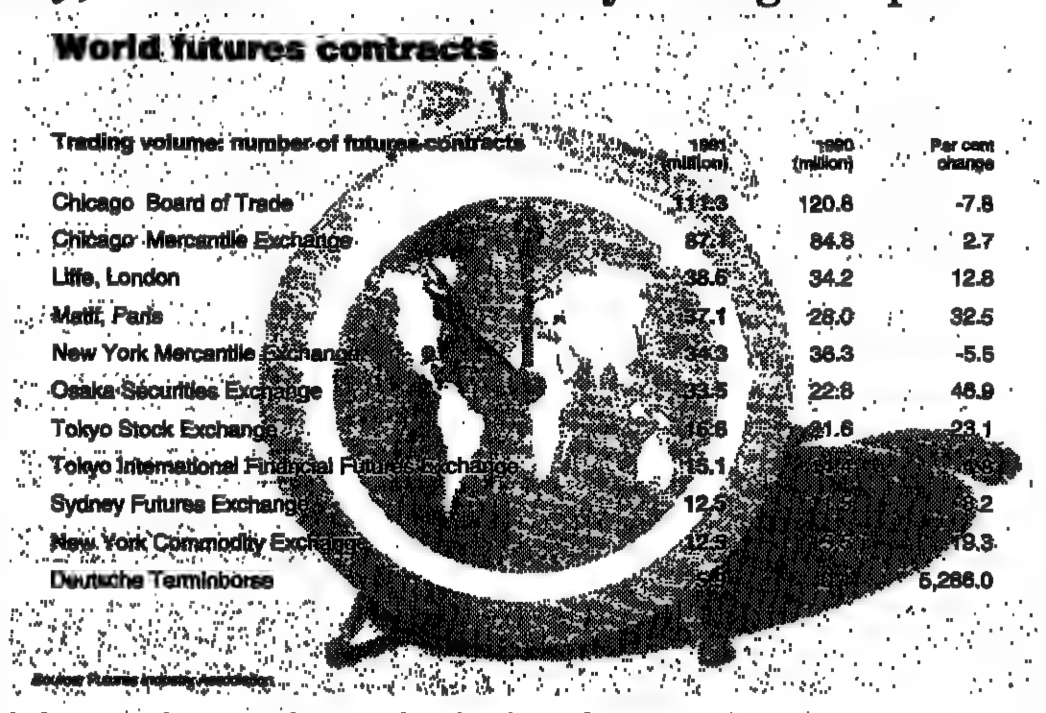
Initially, *Globex is listing only* futures and options on currencies and on the 10-year Treasury note. But by the end of the year, with a total of 225 terminals in place, other currency contracts, Eurodollars, 90-day Treasury bills, Libor, two-year and five-year Treasury notes and 20-year Treasury bonds will join the list. Matif contracts on the Notional French government bond will be added next year, with the *CAC-40, the French stock index,* Pibor and Ecu bonds to follow.

"The real test will be the important Eurodollar and 30-year T-bond contracts, which are traded in low volume in Europe," said Mr Alex Cooper, director of financial markets at Crédit Lyon*nais Rouse.*

When Globex was proposed in 1987, it wowed the commodities trading world with its concept of *round-the-clock* and round-the-world trading, embellished by the vivid imagination of Mr Melamed, a science fiction author.

Five years later, it seems just another interesting addition to the gadgetry of trading, although one that could come into its own when the next world crisis erupts.

World futures contracts



Trading volume: number of futures contracts	1991 (million)	1990 (million)	Per cent change
Chicago Board of Trade	111.3	120.8	-7.8
Chicago Mercantile Exchange	87.1	84.8	2.7
Liffe, London	38.5	34.2	12.8
Matif, Paris	37.1	28.0	32.5
New York Mercantile Exchange	34.3	36.3	-5.5
Osaka Securities Exchange	33.5	22.8	46.9
Tokyo Stock Exchange	16.6	21.6	-23.1
Tokyo International Financial Futures Exchange	15.1	[illegible]	[illegible]
Sydney Futures Exchange	12.5	[illegible]	[illegible]
New York Commodity Exchange	12.3	[illegible]	[illegible]
Deutsche Terminbörse	[illegible]	[illegible]	5,266.0

Source: Futures Industry Association

O&Y hopes to raise $100m by selling property arm stake

By Alan Friedman in New York

OLYMPIA & YORK hopes to raise at least $100m (£54m) by selling a minority shareholding in its main US property subsidiary to one or more investors.

The sale would be part of a complex US restructuring that began this week with the hiring *by O&Y of Mr Patrick Ahern*, a former Lehman Brothers partner named as chief restructuring officer in New York.

Mr Ahern was described by an O&Y adviser yesterday as the counterpart to Mr Steve Miller, the chief O&Y bank negotiator. Mr Ahern will work on the restructuring with US partners from Price Waterhouse, the long*time auditor of O&Y, according* to the O&Y adviser.

The O&Y adviser said discussions were under way with prospective investors who might buy a stake in the Canadian group's *US company – Olympia & York* Companies (USA). He declined to name the possible investors.

O&Y will need the more than $100m by next year to finance repairs, maintenance and tenant improvements on US properties. The discussions with prospective equity partners are being handled by Mr John Zucotti, head of O&Y's US operations.

An O&Y adviser said Mr Ahern would discuss debt restructuring with US bank creditors, acting for O&Y's US subsidiary and liaising with the Reichmanns.

O&Y Developments, the parent company, owns 80 per cent of the US property subsidiary. The *Reichmanns own the remaining* 20 per cent.

The plan being discussed calls for prospective equity partners in the US subsidiary to be offered shares in what is left of the company after a series of US asset disposals. Among these are 12 US office buildings, including the vacant Park Avenue office block formerly headquarters of ITT.

O&Y said it had raised $32.5m from the sale of an 11 per cent shareholding in Hyperion Partners, *an investment fund man*aged by Mr Lewis Ranieri, former Salomon Brothers vice-chairman. This cash could help O&Y avert the need in the near term to file for protection from creditors under US bankruptcy law.

In Toronto yesterday, Mr Nigel Hamilton, a partner of Ernst & Young, administrators to Canary Wharf in London's Docklands, met *representatives of the* scheme's 12 main lenders. The administrators said it was a routine meeting.

Daimler sees DM100bn turnover

By David Waller in Frankfurt

TURNOVER at Daimler-Benz, the German engineering, aerospace and electronics group, is likely to be around the "magic DM100bn ($63bn) mark" this year, up from DM95bn last year, the company's chief executive reiterated yesterday.

Speaking at the company's annual meeting in Berlin, Mr Edzard Reuter said profits were also likely to be ahead of last year's result but gave no other details.

This confirms Mr Reuter's optimism as signalled last month when Daimler reported a 14 per cent rise in first-quarter net profits to DM480m and turnover up 16 per cent to DM22bn.

He stressed that the group's aim was to continue increasing the dividend in line with growth *in profits. It increased the divi*dend last year, from DM12 to DM13 per share, for the first time in six years, following an 8 per cent rise in net profits to DM1.9bn for the year.

He outlined a number of general risks facing the company in the remaining months of the year, including the possibility of generally weak demand worldwide, adverse currency fluctuations and political instability.

However, he said Daimler faced *the future with "quiet and confi*dent optimism".

At Mercedes-Benz, Daimler's vehicle subsidiary, turnover is expected to rise 4.5 per cent to DM70bn this year, in spite of market conditions for commercial vehicles being less favoura*ble than last year. There would* be no serious downturn in sales *in this area as there were signs of* a slow pick-up in demand from other countries in west Europe.

On the passenger vehicle side, he said the S-Class luxury model was proving extraordinarily successful. However, general weakness in world markets meant that total unit sales of cars were not as good as had been hoped at the start of the year.

Mr Reuter took the opportunity to lambast "populistic shortsightedness" for endangering the *future of the European Fighter* Aircraft programme, for which Daimler is chief contractor via its Deutsche Aerospace subsidiary. He said losing the project would make it difficult for a German company ever again to play a leading role in the military air*craft industry.*

Job cuts eclipse gain at London Electricity

By Juliet Sychrava in London

LONDON Electricity is to cut 300 of the 400 jobs in its contracting business which will halve its turnover by March 1993, the company said at its annual results meeting yesterday. It will also abandon appliance servicing, as part of a large restructuring of its non-core businesses.

This news eclipsed the company's 38 per cent increase in pre-tax profit to £142.5m ($263.62) compared with the pro forma pre-tax profit of £103.3m.

In addition, Mr Andrew Curry, recruited three years ago from Currys, the electrical retailer, to mastermind retail and contracting, will leave the company. He will be succeeded by his deputy, Mr Clive Viotman. London said the restructuring of contracting would leave the trading division too small to require a main board director.

The 38 per cent increase in profits was achieved in spite of a £17m loss from contracting, including £11.4m of provisions for future redundancies.

The retail business also incurred a loss, of £11.5m, in spite of a 20 per cent increase in turnover to £38m.

Mr Roger Urwin, chief executive, said retail and contracting would break even in the year to March 1993.

Losses in retail and contracting meant most of the company's £137.3m operating profit was generated by its main business, electricity distribution, which made £158.3m compared with £97.2m previously.

Details, Page 22

Nobel Industries result down 31% after 4 months

By Robert Taylor in Stockholm

NOBEL Industries, the Swedish chemicals and defence group, suffered a 31 per cent drop in its profits (after financial items) to SKr136m ($24m) in the first four months of the year from SKr197m a year earlier. Sales fell 7 per cent to SKr7.04bn from SKr8.18bn over the same period.

Profit per share (after extraordinary items) rose to SKr5.40, from SKr0.25 for the first four months of last year. Nobel's return on capital was 7.7 per cent compared with 9.0 per cent in 1991 and its debt/equity ratio rose to 29.8 per cent from 19.5 per cent.

Mr Ove Mattsson, Nobel's chief executive, said that he expected the group would record a higher profit (after financial items) this year than 1991's SKr460m.

Kymmene still in the red

By Robert Taylor

KYMMENE, the Finnish forestry group, made a FM370m ($87m) loss (after financial items) in the first four months of the year. This compares with a FM73m loss for the same period of 1991 and a deficit last year of FM343m.

Mr Harri Piehl, the company's chief executive officer, said Kymmene would make a "significant loss" this year but it would be "clearly less" than in 1991. He added that earnings are expected to "have turned into profit" by the end of the year.

A gross profit of FM618m for the first four months amounted to 14.2 per cent of turnover and contrasted with a figure of FM604m for the same period of last year, or 14 per cent of turnover.

Turnover was slightly up on the first four months of 1991 to FM4.36bn from FM4.33bn a year earlier.

Reselections at seven top French state jobs

By William Dawkins in Paris

THE CHAIRMEN of seven French state-owned companies were yesterday re-appointed for fresh three-year terms by the cabinet, which also confirmed the change of leadership at Bull, the loss-making computer maker.

This concludes the first stage of a review of the top jobs in France's powerful public sector. The second round, a dozen jobs covering banking, insurance, public transport and energy supply, is due to be settled at next Wednesday's cabinet meeting.

Yesterday's reappointments include Mr Jean-Yves Haberer, the controversial chairman of the bank Crédit Lyonnais. He has been criticised for expanding too fast and making too many risky loans, but has the support of Mr Pierre Bérégovoy, the prime minister. The remaining six are the chairmen of Air France; Péchiney, the aluminium and packaging group; Elf Aquitaine in oil; the Thomson electronics group; Banque Hervet; and Anvar, the applied research agency.

Mr Bérégovoy has said he wants to make as few changes as possible in the 45 public sector jobs up for review this year. But he is expected next week to ask for chairman of Banque Nationale de Paris, the largest government-owned bank; Electricité de France, the power utility; and Aérospatiale, the aircraft maker, to step down because they reach the statutory retirement age of 65 next year.

Other jobs expected to come up for review next week include the chairmanships of the three state-owned insurance companies, Union des Assurances de Paris, Groupe GAN and Assurances Générales de France. One or two insurers could see changes as a side-effect of the retirement of Mr René Thomas, chairman of BNP.

Snecma, the aircraft engine maker, could see a change because its current chairman, Mr Louis Gallois, is a candidate to replace Mr Henri Martre at Aérospatiale.

AMB seeks a solution to its BfG poser

David Waller looks at problems facing Germany's second largest insurer

OVER recent weeks, bankers and insurance executives have been holding secret meetings in Paris and Frankfurt.

At stake is the fate of BfG Bank, Germany's sixth-biggest private commercial bank – and ultimately the independence of Aachener und Münchener Beteiligungs (AMB), majority owner of BfG and Germany's second largest insurance group.

AMB is under siege from Assurances Générales de Paris (AGF), a state-owned French insurance company which has amassed a 25 per cent plus holding in AMB. Exploiting an arcane aspect of German company law, AMB's management has refused to register the votes attaching to the majority of the AGF stake.

Although relations between AGF and AMB are in public far from cordial, the two parties are holding behind-the-scenes talks in which the fate of the loss-making BfG Bank plays a central role.

Last week, Mr Wolf-Dieter Baumgartl, chief executive of AMB, met Mr Michel Albert, president of AGF, in Paris. Also attending the meeting were representatives of Crédit Lyonnais, the big state-owned French bank. Thereafter, high-level talks have taken place in Germany.

It is thought that AGF is trying to broker a deal whereby Crédit Lyonnais, the state-owned French bank, buys a stake in BfG.

This would suit everybody. It would remove pressure on AMB to carry on supporting its banking subsidiary.

In return for this favour, AMB management could be expected to come to a compromise over AGF's voting rights. The big French bank would gain access to the German market.

While other big German banks reported record profits for last year, the BfG parent bank announced on Tuesday that it lost DM277m ($175.3m) in 1991, compared with a profit of DM338m in 1990, reflecting rationalisation costs and the bank's exposure to problem country debt.

Mr Paul Wieandt, BfG's chief executive and architect of its restructuring in recent years, has made no secret that he would welcome an international banking partner – and that the financially-strong Crédit Lyonnais would be a good choice.

For its part, AMB has made it clear that in principle it would welcome a reduction of its commitment to the bank.

AMB bought its majority stake in BfG in 1987 for DM1.9bn. The idea was to develop BfG – then known as the Bank für Gemeinwirtschaft – as a banking outlet for its insurance products. It got more than it bargained for. For a complex series of reasons, BfG soon proved to a serious drain on AMB's resources. It was inefficient and had to engage in costly rationalisation. It had high exposure to problem sovereign debt, requiring increasingly heavy provisions. It was also involved in the costly rescue of Co op, the retailer which nearly went bankrupt in 1989.

The net result is that in 1990 and 1991 AMB – together with BGAG, the trades union holding company which holds the balance of BfG shares – had to inject a total of DM1.5bn into the bank.

It seems certain that BfG requires a further capital injection, despite signs of an improvement in operating performance at the bank last year.

On Tuesday, Mr Wieandt said that after exceptional and extraordinary costs and revenues, the parent bank made a partial operating profit – that is, excluding own-account trading results – of DM60m last year, compared with a loss of DM259m in 1990.

However, he made it clear that the bank's difficulties were not yet over, partly because further rationalisation is required, partly because of the bank's high exposure to problem country debt. That exposure – to a total of 32 countries – stands at DM3.3bn and the intention is to increase provisions from 51 per cent of this sum at the end of last year to 60 per cent by the end of this year.

Mr Wieandt indicated that the bank's equity capital may need a boost of at at least a further DM450m, to make sure that the bank can continue to expand its lending under tougher capital adequacy rules.

Market sources suggest that the shareholders may have to inject a further DM400m, mainly to help the bank increase its provisioning.

According to Mr Wieandt, the bank is unlikely to be able to stand entirely on its own feet until 1994.

This means that there is a considerable economic incentive for AMB to come to an agreement with Crédit Lyonnais and AGF in the months ahead.

Fondiaria tensions force board change

By Haig Simonian in Milan

GROWING differences between the two main shareholders of Fondiaria, Italy's third-biggest insurer, yesterday led to the appointment of Mr Carlo Sama as a second managing director to flank Mr Alfonso Scarpa.

Mr Sama is managing director of Montedison, the industrial group controlled by Ferruzzi Finanziaria (Ferfin), of which he is also deputy chairman. Ferruzzi, which used to own the majority of Fondiaria, shares control through a holding company owned jointly with Mr Camillo De Benedetti.

Under Mr Scarpa's guidance, Fondiaria has managed to steer a course through changes of ownership and the vicissitudes of the Italian market to emerge as one of Europe's most dynamic insurers.

It has drawn closer to Aachener und Münchener Beteiligungs (AMB) in Germany and Royal Insurance in the UK. Fondiaria now owns 20 per cent of AMB, while earlier this year it was a founder-member with AMB and Royal of European Partners for Insurance Co-operation, a joint venture to co-ordinate the three companies' future expansion in Europe outside their home markets.

But although Fondiaria has remained profitable, there have been growing rumours that Ferruzzi has been dissatisfied with its performance. The comments have gained credence in view of the decline in the Ferruzzi group's own financial performance.

Ferfin has regularly denied any plans to pull out of Fondiaria. However, the carefully-orchestrated leaks about keeping a close eye on Mr Scarpa's management, indicates a growing concern with Fondiaria's future.

Both men stressed yesterday that the appointment was harmonious. "Carlo Sama was nominated to underline the Ferruzzi group's interest in Fondiaria and scotch certain rumours about disinvesting", said Mr Scarpa.

"Ferruzzi has a very important investment in Fondiaria and it is right that there should be a manager-entrepreneur who occupies himself more directly in its running," according to Mr Sama.

BSN to sell two Italian mineral water brands

By Haig Simonian

BSN, the French foods group which sided with Nestlé of Switzerland in the battle for Perrier, is selling two Italian mineral water brands formerly owned jointly with the Agnelli family's IFIL holding company.

Although worth only around L25bn ($21m), the deal represents a further upheaval in the European mineral water business in the wake of the Perrier takeover. Following that transaction, the European Commission expressed concern about the shares of the French mineral water market held by Nestlé and BSN.

The sale of BSN's Sangemini and Fabia brands is not believed to be linked with the Perrier deal. Rather, BSN has now decided to concentrate on Ferrarelle and Boario, its two biggest-selling marques in Italy. Ferrarelle and Boario account for around 80 per cent of the L500bn turnover of BSN's Italian mineral water activities, against L100bn for the two marques being sold.

Sangemini and Favia are being acquired by a joint venture between Terme Demaniali di Acqui, a quoted holding company, and Mr Massimo Violati, whose family controlled Sangemini until 1987.

Pirelli to sell bedding unit to Suez offshoot

PIRELLI, the loss-making Italian tyres and cables concern, yesterday announced it had agreed the first of a series of disposals aimed at lowering its debts and speeding a return to profitability, writes Haig Simonian.

The group is selling for L41.9bn ($35m) its bedding activities, one of the seven business units in the diversified products division now up for sale. The transaction, which involves one of the smallest business units under the hammer, will realise an extraordinary gain of L25.4bn for the parent company.

The bedding business, which makes beds, mattresses and associated textile products, has a turnover of around L100bn. The disposal should ease the Pirelli group's net indebtedness by around L63bn, it said.

The business is being bought by Overseas Partners International and Eurosuez, an offshoot of the French Suez banking group.

Toshiba pulls the plug on audio equipment business

Stefan Wagstyl examines the challenge the Japanese group is facing as a new president takes over

TOSHIBA, the Japanese electronics combine, has discreetly pulled out of *making radio-cassettes*, compact disc players and other kinds of audio equipment.

No factories have been closed or jobs cut. The operations have been quietly subsumed into the group's television and video products business. Nevertheless, a famous name has disappeared from hi-fi stores the world over.

Toshiba's move out of audio is a sign of the way in which even *the largest Japanese* groups are being forced to respond to a worldwide recession *in the electronics* industry and a sharp increase in the cost of capital.

Moreover, Toshiba, which operates in information processing and power engineering as well as consumer electronics, has been hit particularly hard by the rapid onset of technological change in the computer and semiconductor industries. In the late 1980s, it reaped bumper profits from *pioneering new ranges of* memory chips and portable computers. Today, it is under pressure in both markets.

Toshiba still prides itself in a wide product range, high research and development spending, and its technological prowess. But these boasts are hedged by a new-found concern for husbanding resources, particularly capital.

"Our basic philosophy is to meet the needs of the people," says Mr Fumio Sato, who takes over as president tomorrow. "However, *before* we used to make anything that would sell. Now we must consider quality. That means, among other things, our profit margins."

Mr Sato, a softly-spoken mechanical engineer, was chosen by a group of senior directors headed by the out-going president, Mr Joichi Aoi. He plans to develop his predecessor's strategies rather than make any radical breaks with the past. Yet he believes that, over time, companies must "evolve structurally in order to avoid becoming out-of-date".

Toshiba's move out of audio is a sign of the way in which even the largest Japanese groups are being forced to respond to a worldwide recession

This challenge is particularly urgent today. After growing *rapidly in the late 1980s*, Toshiba faces stagnant sales and falling profits, while the need to keep pace with technological innovation demands greater investment. The group's consolidated profits fell in the year to March by 44 per cent, and sales were flat. The current year is unlikely to be much better.

Toshiba is trimming consolidated capital investment and research and development spending by a few percentage points to Y480bn and Y310bn respectively – *but is not* planning any large cuts.

Mr Sato says that following the decline in the Tokyo stock market, the company's cost of capital has risen, so greater attention is being paid to increasing capital efficiency. He gives the example of the clean room, the building where the critical stages of making semiconductors are carried out in an ultra-pure atmosphere.

Building clean rooms is so expensive that Toshiba is *examining* ways of *cramming* more machines into a smaller space inside the clean room, for example by removing control panels and housing them outside the clean room.

Cutting costs by *pulling* out of a business, as with audio, is a last resort. The company *prefers to move production overseas*, particularly in Asian countries where labour costs are low. If necessary, production can be transferred entirely to local partners.

This policy is unaffected by the recession in the industry: even though Toshiba has cut the Japanese parent company's capital investment budget for this year by 25 per cent, the group total, including overseas subsidiaries, is down by just 1 per cent.

Mr Sato believes Toshiba's *future rests firmly in computer* and semiconductor manufacture, *which account for about* half the group's sales.

However, he acknowledges the group *faces serious* problems. In semiconductor manufacture, Toshiba, like other Japanese makers, is losing money, since prices for memory chips have plunged due to weak demand and intense competition.

This is in sharp contrast to the late 1980s when Toshiba *stole a march on the rest of the* industry by pioneering the mass production of IM D-Ram memory chips, a top-selling product, and reaped profits from being first into the market. However, *the race to pro*duce the next generation memory device, the 4M D-Ram, resulted *in no clear winner and* wafer-thin margins.

Similarly, in computers, Toshiba beat other manufacturers in bringing to market in the late 1980s a mid-priced portable laptop machine equipped with many advanced features. But other manufacturers have since followed Toshiba's lead, driving down prices and paring margins to the bone. Laptop machines, a luxury five years ago, have become a commodity. Mr Sato says Toshiba is planning to launch a new range of laptops *later this year*, but declines to give details.

TOSHIBA Consolidated figures, year to March 1992	Sales (Ybn)	% change	Operating profit (Ybn)	% change
Information technology	2,501	-1	55.2	-70
Power engineering	1,053	5	48.1	33
Consumer electronics	1,548	3	15.2	-62

Mr Sato believes that to stay abreast of technological change Toshiba must seek partners – *as well as continuing* to invest heavily in its own R and D. Yesterday, the group announced a venture with Apple, the US computer maker, for the joint development of multi-media – products which combine computing, television and audio technology.

It already has a joint venture with *IBM, the world's largest* computer company, for making colour liquid crystal displays for computers. It is considering a second agreement with IBM for the joint development and production of flash memories – a new generation microchip which could replace the hard disk memory.

Toshiba faces stagnant sales and falling profits, while the need to keep pace with technological innovation demands greater investment

These partnerships are not restricted to hardware. Last year, Toshiba paid $500m for a 6.25 per cent stake in the film and television interests of Time Warner, the US entertainment conglomerate. Toshiba *also took* a 25 per cent stake in Time Warner Enterprises Japan, a Tokyo-based company which will control Time Warner's *Japanese businesses.*

The complex structure of the deal reflects Toshiba's innate caution, as does the relatively small size of the investment, which pales in comparison with the multi-billion dollar acquisitions of Hollywood film and television companies made by Sony and Matsushita Electric Industrial.

Mr Sato says modestly that consumer electronics is a business *about* which he *still* knows quite little. It is clear that his interests lie in the solid virtues of engineering rather than the capricious delights of Hollywood. Last year he served as the president of the Japan Society of Mechanical Engineers. Among the society's main concerns was recruiting enough young Japanese into engineering.

To the chagrin of industry, many engineering graduates turned their backs on manufacturing in the *late 1980s* for the *high salaries of financial* services. However, Mr Sato, says that more recently young people *seem to be changing their* minds. "The collapse of the bubble economy has led young people to re-evaluate the merits of manufacturing."

Manufacturing is very dear to Mr Sato. He is convinced that, even though the current downturn in the Japanese economy is severe, recovery will come eventually because Japanese industry retains its international competitiveness in manufacturing. "As far as manufacturing is concerned, Japan will stay in a strong position *for* some *time* to come."

Iranian government buys stake in east German tyre factory

By Leslie Colitt in Berlin

THE IRANIAN government has acquired a major stake in the main production plant of Pneumant, eastern Germany's largest tyre company.

Iran has bought 40 per cent of the factory at Fürstenwalde, east of Berlin, with the remaining interest sold to a management-employee buy-out and to other German investors. The disposal by the Treuhand, the German privatisation agency, was for an undisclosed sum.

Iran has guaranteed purchase of the basic output of the factory over the next 12 months, while additional production will be sold to "untied" European tyre dealers.

Pneumant has also concluded a consulting agreement with Iran which has several *old tyre factories which are to* be modernised. Loss-making Pneumant, which also has large factories in Dresden and Riesa, which are to be sold separately, had turnover last year of DM180m ($113.9m) and roughly one-fifth the output of Continental, Germany's largest tyremaker.

Continental co-operated closely with Pneumant last year and expressed strong interest in buying the east German producer. However, Continental's interest weakened and Pneumant, which suffered heavy losses when the former Soviet market broke away, was placed in liquidation last September.

An industry observer said the west German tyre giant wanted to make sure Pneumant did not fall into the hands of a *competitor* before abandoning it.

The deal with Iran will *secure 890 jobs over the longer* term, the Treuhand said. Pneumant had 3,830 employees at Fürstenwalde last September which has been cut to 1,971. Pneumant's factory in Riesa is to be sold this year and a plant in Dresden next year.

US auto industry 'may falter in fourth quarter'

By Barbara Durr in Chicago

FIRST Chicago, the leading midwest regional bank, expects over-ambitious third-quarter production schedules in the auto industry to increase the risk of the US economy petering out in the fourth quarter.

First Chicago said that the auto industry, a pillar of the US economy, could provide a repeat of America's disappointing 1991 economic performance.

Last year, the industry, whose production is concentrated in the midwest, led an incipient recovery then badly faltered in the fourth quarter, prolonging the recession.

Despite lacklustre selling rates, the industry's third-quarter production is scheduled to rise by 15.5 per cent from the second quarter to a 11.8m monthly rate, its highest level for the three years.

Sales, including imports, last month reached 12.7m. This represented a recovery from their trough of a 11.2m monthly rate at the start of the Gulf war, but was still below the 1980 peak.

While the boost in production may add more than 1.5 percentage *points to the US* real GDP for the next quarter, the bank said, "the auto industry could place a drag on growth in the fourth quarter".

It noted, however, that automakers might yet trim their production schedules more realistically for the third quarter.

On the bright side, the bank said the market share of US-based car manufacturers, including Japanese cars made in the US, had risen to 83 per cent from 78 per cent between May 1991 and May 1992.

Australian housing loans group prepares for stock exchange listing

ST GEORGE Building Society, Australia's largest housing loans group, yesterday unveiled *taxable profits for the 11 months to end-April of* A$44.49m (US$33.4m), compared with A$45.62m for the full year to May 31 1991, Reuter reports *from Sydney.*

St George said it was issuing the results to ensure an informed market before its Australian Stock Exchange listing on July 2. It will change its status to a bank on July 1.

"The directors believe that, subject to completion of the audit process, the group operating *profit after tax and extraordinary items for the* year ended May 31 1992 will not be less than A$48m," St George said.

The *profit* was before a A$3m *extraordinary* loss relating to the cost of converting to bank status. St George said the figure represented annualised earnings per share of 45.2 cents, against 45.0 cents previously.

Assets were A$9.3bn at April 30, up 9.2 per cent from the end of the previous year. Net *tangible assets were A$4 for each of the soci*ety's 109.1m shares, against A$3.83.

St George will still focus on residential lend*ing and retail deposits*, and it intends expanding its network in Victoria and Queensland.

St George said that, while the operating environment had been difficult, it looked forward to more favourable trading conditions with the recovery of the economy and business and consumer confidence.

*"The directors expect there will be opportuni*ties for St George to increase its home and consumer lending receivables, and believe that St George is well placed to meet the competitive challenges of the banking environment," it said.

St George said it has a capital adequacy ratio of 10.5 per cent, above the Reserve Bank minimum of 8 per cent.

Mount Charlotte debts restructured by Brierley

BRIERLEY Investments, the New Zealand investment company, has restructured the debts of Mount Charlotte Investments, its 70 per cent owned British hotels subsidiary, by subscribing to an issue by *Mt Charlotte* of £150m of convertible notes, AP-DJ reports from Wellington.

Government of Singapore Investment and Temasek Holdings, *two investment agencies* of the Singapore government which own the remaining 30 *per cent of* Mt Charlotte, also subscribed.

Mr Paul Collins, chairman of Mt Charlotte and chief executive of Brierley, said the debt restructuring had secured the company's finances.

Taiwanese airline gains funding to buy aircraft

TAIWAN'S central bank has agreed to provide US$790m to help fund purchases of aircraft by *EVA Airways, the* island's second international airline, Reuter reports from Taipei.

A central bank official said the loan was the largest made from $10bn of foreign currency reserves which the bank set aside in February to finance major economic projects and overseas investment by local companies.

The $790m will be lent to a consortium of 15 local banks, headed by state-owned Chiao Tung Bank, which agreed to a *12*-year loan of US$1.05bn to EVA earlier this year.

EVA, set up last July by the Evergreen Group, the container shipping operator, will use *the loan to buy four* Boeing 767s, eight Boeing 747s and six McDonnell Douglas MD-11s *that it has already* ordered. All are to be delivered by 1995.

The airline flies five jets to eight destinations, most in south-east Asia.

It will start flying to the US at the end of the year and hopes to start flights to Vietnam and Australia.

Compromise proposed on EC investment services

By Andrew Hill in Brussels

THE CREATION of a single EC market in securities trading moved a step closer yesterday with the release of a new compromise proposal on the investment services directive.

Spurred on by the recent accord on capital adequacy standards for EC banks and securities firms, the Portuguese – who hold the EC presidency until next week – have suggested a way to bridge the gap between feuding French and British camps on the key issue of how quickly off-market share transactions should be made public.

Finance ministers will be asked to consider the Portuguese plan when they meet on Monday in Luxembourg.

Britain and Germany are against immediate or rapid disclosure of trades, which would leave their market-makers exposed whenever a large trade went through the system. France and the southern countries are broadly in favour of more transparency which would have a less drastic effect on their order-driven markets.

The Portuguese plan would involve a rolling system averaging out information about prices and volume over six hours and delaying publication for two more hours. "This will ensure that market anonymity is respected and market liquidity looked after," said a European Commission official.

Transparency is the most important of several issues which have been holding up the investment services directive since 1990, despite several rounds of intensive ministerial and expert negotiations. The aim is to allow investment companies to trade throughout the EC after 1992. "If we sort this one out the rest more or less clicks into place," said the same Commission official.

Earlier arguments about whether banks should be allowed direct access to stock markets – a proposal resisted by Spain and Portugal – have now been reduced to a debate over when direct access should be granted. But there is still a question mark over how France will react to the Portuguese proposals.

At Monday's meeting finance ministers are expected to reach a formal common position on the capital adequacy directive, the broad lines of which were agreed two weeks ago. Negotiations over the last fortnight are said to have ironed out the outstanding technical difficulties.

Shearson fined in ConAgra stock case

By Patrick Harverson in New York

SHEARSON Lehman Brothers, the Wall Street broking house, yesterday paid a $500,000 fine to the New York Stock Exchange in connection with an alleged case of stock manipulation in 1990.

Mr Peter DaPuzzo, the brokerage's former co-head of equity trading, paid an additional penalty of $100,000.

Both Mr DaPuzzo, an equity trader and a well-known figure on Wall Street, and Shearson, accepted – without admitting or denying guilt – the NYSE's findings that in November 1990 they improperly influenced the share price of ConAgra, the food and agricultural products group. Their actions, the NYSE alleged, made a stock offering that Shearson was handling the next day less costly for the broking house.

According to the NYSE, Shearson's trading desk in New York, which was run by Mr DaPuzzo, instigated a last-minute trade in ConAgra shares on the Pacific Stock Exchange in San Francisco at the price of $33⅞.

The order changed the closing price of ConAgra from $33¾ – the last reported trade on the NYSE – to $33⅞, the price at which Shearson had previously arranged to sell the 4.4m ordinary stock offering to investors on the following day.

As a result of the last-minute San Francisco trade, which violated NYSE rules against artificially influencing a stock price before a public offering, ConAgra received $550,000 less from its stock issue than if the price had not been manipulated. Prior to yesterday's settlement, Shearson made up that loss to ConAgra.

Mr DaPuzzo said yesterday: "I agreed to settle with the New York Stock Exchange because it was quickly becoming prohibitively expensive in terms of money and time for me to continue defending myself."

He also announced that he had retired from Shearson after more than 30 years with the company, and had joined Steinhardt Partners, a leading Wall Street money management firm.

Mr Manny Geronimos, the senior Shearson stock trader working with Mr DaPuzzo at the time of the alleged stock manipulation, also agreed to a settlement with the NYSE. Mr Geronimos received a censure and was temporarily suspended from the securities industry.

Euromobiliare chief to step down

By Haig Simonian in Milan

MR Guido Roberto Vitale, the managing director of Euromobiliare, the Italian merchant bank now controlled by Midland Bank of the UK, is to step down at the end of September.

No direct successor has been named. However, Mr Sencar Toker, European managing director of Midland Montagu, the UK bank's investment banking arm, is to become chairman of Euromobiliare's executive committee, which effectively runs the company.

Euromobiliare also announced yesterday that it is spending L30bn ($25.3m) to buy Cofimedit, an investment management subsidiary of the Fondiaria insurance group, which currently has around L1,000bn in funds under management.

Mr Vitale, one of the founders of Euromobiliare in 1973, was one of the leading figures in the liberalisation of Italian merchant banking in the mid-1980s. Under his guidance, the bank conducted a series of daring deals which challenged the monopoly of the country's most established financial institutions.

However, Euromobiliare has suffered badly from the more difficult trading conditions of the past two years. Mergers and acquisitions have declined, while profits from equity activities have slumped.

Those factors, plus heavy write-downs on a stake in the VM motors company in which Euromobiliare led a management buy-out in 1989, contributed to a L976m group loss last year against net profits of L8.5bn in 1990.

The figures, along with Midland's assumption of a majority stake and suggestions that Mr Vitale himself was tiring, may have prompted yesterday's decision. However, Mr Vitale will remain on the board as a director.

Euromobiliare said acquiring Cofimedit would substantially reinforce its existing fund management activities. The company has three regional offices apart from its Florence base, and it should allow the bank substantially to improve its coverage in retail fund management.

According to Euromobiliare, the acquisition marked one of a number of initiatives now being taken to "relaunch" the bank, which would seek to concentrate on its core businesses of fund management, investment banking and corporate finance and securities trading.

Brady backs stock-index futures bill

By Barbara Durr in Chicago

MOVES by three US stock exchanges to lower margin requirements on stock index futures has rekindled a simmering controversy over the regulation of such contracts.

Mr Nicholas Brady, the US secretary of the treasury, who contends that stock index futures increase stock market volatility, has stepped back into the fray to urge Congress to pass legislation granting the Federal Reserve authority over stock index futures margins. The legislation has been languishing for more than a year.

Brady: supports regulation of margin requirements

The Chicago Mercantile Exchange, which trades the widely-used Standard & Poor's 500 stock index future, and the Chicago Board of Trade, which trades a Major Market Index future, recently lowered their initial margin requirements for such contracts. The New York Futures Exchange, a wholly-owned subsidiary of the New York Stock Exchange, which trades a NYSE Composite Index, lowered its margin requirements last month. The exchanges argue that stock index futures margins are too high and that lowering them will not increase volatility.

However, a number of influential senators are pressing for reform. They say it would take only a single day of big losses – paired with leveraged futures margins – "to reignite public controversies similar to those of 1987 and 1989." The senators have urged the Commodity Futures Trading Commission, the futures industry regulator, to determine if current margin levels are adequate.

SEC plans revision of proxy battle rules

By Patrick Harverson

NEW rules making it easier for shareholders in US companies to challenge management during proxy battles and forcing corporations to disclose more information about executive pay have been proposed by the Securities and Exchange Commission.

The proposals, which were unanimously approved by the SEC's four commissioners at a meeting in Washington, are part of a campaign by the US watchdog to give shareholders more say in the management of companies.

The new rules will not come into effect until the SEC has received comments on its proposals from the public and corporations.

On the proxy issue, the SEC's plan is to simplify the disclosure requirements imposed on shareholders when they discuss in writing how they might vote in an annual meeting.

At present, a shareholder needs prior approval from the SEC when communicating in writing with more than 10 other shareholders.

Oral discussions between shareholders would be exempt from any type of filing. The SEC also proposed that big shareholders should be allowed to include a criticism of a company's performance in their proxy statements.

In the past, US corporations have been against the easing of proxy rules, arguing that it would allow big institutions to organise opposition to management in secret. The SEC first proposed altering its proxy rules in June 1991, but the watchdog was forced to tone down the substance of some of the changes after receiving more than 900 comment letters, many of them hostile to the proposals.

Business groups are likely to express their dissatisfaction with the new rules during the public comment period. The SEC, however, is determined to make life easier for dissident shareholders who want to challenge the way companies are being run.

Mr Richard Breeden, the commission's chairman, said yesterday that he would like to see the changes take effect in time for the 1993 proxy season.

Under the proposed rules on executive pay, companies would be required to provide shareholders with clear information on what executives are earning, laid out in chart form rather than in pages of dense text.

Management would also be forced to show how executive pay relates to company performance, and how it compares with the performance of similar companies.

The United Shareholders Association, a Washington-based pressure group, welcomed the proposals. Mr Ralph Whitworth, president, said: "The SEC's proposals will usher in a new era of activist ownership to help reinvigorate the competitiveness of American corporations."

Bombardier forecasts profits improvement

By Robert Gibbens in Montreal

BOMBARDIER, the Canadian-based aerospace and transit equipment group, has predicted that higher aircraft deliveries would bring improved profits this year.

Bombardier's total backlog of firm orders had reached C$6.2bn (US$5.21bn) and will approach C$7bn by year-end, Mr Laurent Beaudoin, chairman, said. The backlog would approach C$8bn in a year. About two-thirds of the total is for aerospace products.

In the first quarter to the end of April, Bombardier earned C$32.7m, or 21 cents a share, up 28 per cent from a year earlier. Sales for the period were C$938m, against C$658m in the same period last year. The latest results include contributions by two recent acquisitions.

Mr Beaudoin would not comment on analysts' estimates that earnings for fiscal 1993 would be between 90 cents and 95 cents a share. However, he said he expected the group's results to show an improvement over fiscal 1992 figures.

The chairman said defence products accounted for only 10 per cent of Bombardier's C$4bn annual sales. But missile and surveillance systems developed by its Short Brothers and Canadair units were projects with a long-term future, he added.

In civil aircraft development, a Bombardier engineering-marketing team is currently working on the 70-passenger regional aircraft. Mr Beaudoin said the model would be lighter than the proposed Fokker 70 and that it was designed for a more specialised market.

About 20 potential customers have put down deposits for the Global Express super business jet now being studied as a derivative of the 50-passenger regional jet.

Learjet, the Kansas-based aircraft subsidiary, was offering a new model against the backdrop of a business jet market which was showing signs of recovery in spite of the persistent recession, Mr Beaudoin said.

Bombardier stock has been weak recently because of problems with its Belgian transit equipment unit; speculation over aircraft certification delays; and lay-off notices at Short Brothers of Northern Ireland.

Laurent Beaudoin: defence accounts for only 10% of sales

The company blamed the recent 90-day lay-offs on the winding-up of two older aircraft programmes, foreseen when Bombardier bought the unit in 1989.

Bombardier has reorganised its British, French and Belgian rail equipment units into a new holding company, Eurorail, which will continue to be financed by the parent in Montreal. BN, the Belgian unit, is expected to return to profitability by year-end after a reorganisation.

"Despite many design changes and technological problems, we're pushing to deliver the first Channel Tunnel rail set by year-end. Only then can we get some idea of the margin we may make on the total C$650m rail car order," Mr Beaudoin added.

Bombardier's UTDC unit in Ontario is negotiating a C$350m underground rail order with the city of Toronto.

Bombardier's contracts to develop new generation underground trains for New York and Paris have reached the evaluation stage. A prototype nine-car train set is scheduled for delivery to New York this summer, and Bombardier's ANF unit in France will deliver a similar set of prototypes to the Paris transit system this autumn. Eight pre-production sets will follow next year.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.75	19.36	20.45
0100	19.75	17.35	17.35
0130	19.65	17.30	17.30
0200	19.65	17.30	17.30
0230	19.65	17.30	17.30
0300	19.65	17.29	17.29
0330	19.46	17.29	17.29
0400	19.46	17.29	17.29
0430	19.46	17.29	17.29
0500	17.45	17.29	17.29
0530	17.70	17.32	17.32
0600	17.70	17.32	17.32
0630	17.70	17.30	17.30
0700	22.98	19.01	20.13
0730	23.94	19.37	20.48
0800	24.80	19.72	20.82
0830	26.70	21.16	22.31
0900	26.70	21.95	23.12
0930	27.91	26.49	27.79
1000	27.91	26.49	27.74
1030	27.91	26.49	27.73
1100	26.49	23.37	24.52
1130	27.61	23.37	24.51
1200	27.82	35.91	37.37
1230	27.82	35.91	37.38
1300	27.91	35.91	37.40
1330	26.44	21.96	23.08
1400	25.44	21.96	23.08
1430	25.45	21.96	23.08
1500	26.44	21.96	23.08
1530	26.44	21.96	23.08
1600	25.44	21.96	23.08
1630	26.86	21.96	23.08
1700	26.86	21.96	23.08
1730	26.86	21.96	23.09
1800	26.86	20.48	21.58
1830	24.80	20.48	21.56
1900	24.80	20.45	21.53
1930	24.83	19.64	20.71
2000	23.94	19.64	20.72
2030	22.98	19.43	20.50
2100	22.98	19.43	20.50
2130	27.90	21.69	22.82
2200	29.00	26.50	27.77
2230	29.00	26.50	27.77
2300	29.00	26.50	27.81
2330	22.73	19.43	20.51
2400	21.76	19.32	20.41

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.66/MWh becomes 1.866p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

SocGen in move to revive TME index

By Tracy Corrigan in Paris

SOCIETE Générale, the French bank, has launched an unusual domestic bond issue linked to a French government bond index, in an attempt to revive interest in the moribund index.

The issue is designed to provide a straightforward yield curve play for investors who take the view that the French yield curve – which is currently inverted – is set to shift to a positive shape.

Société Générale hopes to restore interest in the index – the Taux Moyen D'Etat (TME) – on long-dated government bonds. After a period in vogue in the late 1980s, the market in bonds linked to the TME collapsed as the yield curve became more inverted.

The FFr1.5bn 10-year issue pays interest of 60 basis points above the TME index. The deal met with strong demand, particularly from French insurance companies, according to Société Générale.

It was also boosted by the French Treasury's announcement last Friday of an exchange programme under which some existing bonds linked to the TME index will be redeemed.

Société Générale believes that the projected shift in the French yield curve will be mirrored in other European markets. It plans to create indices similar to the French TME index on other European government bond markets.

The bank plans to launch products linked to these new indices. "We plan to export this idea to Europe," said Mr Antoine Paille, director of options at the bank.

Tomorrow, Société Générale will launch a FFr300m to FFr500m 10-year Eurobond. The bond will pay TME plus 20 basis points, with a floor at 7.5 per cent. But if the TME reaches 11 per cent, the floor disappears.

In addition to bond issues, the bank is to start making markets in caps and floors (options with upper and lower limits) on the TME.

Domestic institutions spur Bank's gilt auction to success

By Sara Webb in London and Patrick Harverson in New York

UK GOVERNMENT bonds rallied following the success of the Bank of England's £2.75bn gilt auction yesterday, its largest auction of UK government debt.

GOVERNMENT BONDS

Dealers reported strong demand from domestic institutions for the latest auction stock – 9 per cent Treasury due 2012 – whereas overseas investors largely stayed away because of concern about the prospects for convergence of European interest rates and lack of interest in long-dated issues.

Bids amounted to £4.45bn, giving a bid-to-cover ratio of 1.62. The ratios on the Bank's previous auctions have ranged from 1.82 to 2.28, but dealers pointed out that the low cover ratio at yesterday's auction still compared "reasonably favourably" with previous auctions given the large amount of debt being sold.

The lowest accepted price was 98.31, yielding 9.11 per cent, while the highest accepted price was 99.02, yielding 9.10 per cent.

"The auction generally went much better than some people had expected", said one dealer, adding that the long end of the gilt market bounced after the auction results emerged. The benchmark 11¾ per cent gilt due 2003/07 rose from 115⅜ at the opening to trade at 115⅝ by late afternoon. Turnover in the futures market reached over 60,000 contracts with the Liffe gilt contract rising from 97.11 to 97.24.

■ EUROPE'S main government bond markets ended the day slightly higher, helped chiefly by the rally in the US Treasury bond market.

The German government bond market opened on a weak note, following the release on Tuesday of worse-than-expected M3 money supply data for May which has wiped out hopes of a cut in interest rates by the end of the year. The bund futures contract tested the important support level of 87.60, falling to 87.52, but ended at around 87.69 on a volume of over 40,000 contracts.

News that consumer prices in North Rhine Westphalia rose by 0.2 per cent in the month to mid-June and by 4.3 per cent from June 1991 had little impact on the market as the figures were in line with expectations.

The French government bond market closed on a firmer note, helped by the US Treasury bond rally and news that a decision is likely to be taken next week to set the date of the French referendum on ratification of the Maastricht Treaty.

Speculation about the date of the referendum and news last Friday of a large bond exchange programme by the French Treasury led to some weakness in the French market recently. The 8½ per cent bond due 2023 ended with a yield of 8.78 per cent, against its opening of 8.81 per cent.

■ US Treasury prices firmed at both ends of the market yesterday in the wake of an unexpected drop in May durable goods orders and a successful five-year note auction.

In late trading the benchmark 30-year government bond was up ¼ at 101 15/16, yielding 7.82 per cent. The two-year note was also higher, up ⅛ at 100⅛, yielding 4.95 per cent.

Prices rose when the Commerce Department announced that durable goods orders fell 2.4 per cent in May. The decline in orders was broadly based, and contrasted with the 0.6 per cent increase expected by economists. The most worrying aspect of the figures, said analysts, was the ninth consecutive decline in order backlogs, which suggests that manufacturers are unlikely to boost production in the near future.

The durable goods numbers immediately sparked speculation that the Federal Reserve will cut interest rates again. Sentiment was helped by yet another call for lower rates from the White House. In an interview with the New York Times, President George Bush said he would like to see another monetary policy easing, and that fears of higher inflation did not justify keeping interest rates unchanged.

Prices received a further boost later in day when the Treasury's auction of $10.5bn in five-year notes met strong demand from retail investors, with demand exceeding supply by almost three to one.

■ JAPANESE government bond prices closed higher, helped by a 10-year bond auction and a pick-up in buying interest in the debt market as the Nikkei stock index fell through the 16,000 level.

The Finance Ministry sold Y472.67bn of a Y800bn new 10-year bond issue at auction yesterday. The new No 149 issue has a coupon of 5.5 per cent, and was sold at an average price of 99.64 to yield 5.556 per cent.

Dealers reported some hedge-selling in the morning as supply concerns weighed on the market, but as the Nikkei index dropped, ending the day 253.32 points lower at 15,853.67, traders noted renewed buying interest.

See Lex

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.7179	-0.072	8.84	8.89	9.11
BELGIUM		9.000	05/01	100.3500	-	8.94	8.93	8.76
CANADA *		8.500	04/02	102.3800	+0.500	8.15	8.09	8.39
DENMARK		9.000	11/00	99.2000	+0.080	9.12	9.11	8.79
FRANCE	BTAN	8.500	03/97	97.9379	+0.074	9.03	8.95	8.87
	OAT	8.500	11/02	97.8200	+0.180	8.79	8.72	8.48
GERMANY		8.000	01/02	99.7500	+0.030	8.02	7.96	7.93
ITALY		12.000	05/02	95.5900	-0.370	13.20†	13.22	12.57
JAPAN	No 119	4.800	06/99	96.0400	-	5.59	5.63	5.73
	No 129	6.400	03/00	105.6629	+0.317	5.33	5.41	5.50
NETHERLANDS		8.250	02/02	99.4400	+0.020	8.32	8.26	8.26
SPAIN		11.300	01/02	99.1000	+0.150	11.42	11.56	10.86
UK GILTS		10.000	11/96	102-19	+01/32	9.27	9.19	9.10
		9.750	08/02	103-11	+03/32	9.25	9.16	8.95
		9.000	10/08	99-11	+11/32	9.10	9.02	8.79
US TREASURY *		7.500	05/02	103-02	+07/32	7.20	7.21	7.33
		8.000	11/21	101-30	+06/32	7.82	7.82	7.81
ECU (French Govt)		8.500	03/02	97.1000	+0.230	8.96	8.98	8.57

London close *New York close. Yields: Local market standard

† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)

Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Depressed conditions keep borrowers away

By Simon London

NEW-ISSUE activity in the international bond market ground almost to a halt yesterday, with depressed conditions in most European markets and poor currency swap opportunities keeping potential borrowers away.

INTERNATIONAL BONDS

General Electric Capital Corporation, the financing arm of the US industrial group, added C$50m to its C$100m five-year issue launched last week. The 8 per cent bonds were re-offered to investors at a fixed price of 99.80, against 99.95 last week.

The issue was made under GECC's medium-term note programme and carries no independent documentation. Using the MTN structure cuts issuing costs for the borrower.

Following the recent pattern for larger MTN issues, the bonds were fully underwritten by the dealers to the programme, lead-managed by Kidder Peabody. Other than the documentation, the issue was little different from a conventional syndicated Eurobond issue.

Elsewhere, syndicate officials said the European Investment Bank was hoping to raise funds in both the French franc and Italian lira sectors. Both sectors have suffered in the aftermath of Denmark's rejection of the Maastricht Treaty on June 2.

However, while French franc bonds are supported by strong domestic economic fundamentals – yesterday CAR, the state-backed financing agency, successfully added FFr1bn to an existing domestic issue – the lira bond market remains volatile. Bankers said yesterday that the EIB may find it difficult to assemble an underwriting group for a lira bond issue.

Against this, the EIB has shown itself willing to compromise to promote favoured sectors of the Euromarket.

For example, its Ecu350m 10-year deal launched on Monday was priced to yield 12 basis points more than French government Ecu paper, with full fees paid to underwriters. Before the Danish vote, the EIB borrowed in Ecu at a yield spread of just 4 basis points – with underwriters offered minimal fees.

● Swiss franc bonds issued by Heron, the UK property company which is negotiating a debt restructuring with bank creditors, resumed trading having been temporarily suspended trading on stock exchanges in Switzerland.

The bonds now trade "flat": investors no longer pay accrued interest when purchasing bonds. There are no interest payments due until November, by which time Heron hopes to have presented restructuring proposals to bondholders. The bonds reflect that further interest payments are unlikely to be made.

Dealers quoted Heron's six outstanding Swiss franc issues at around 20 per cent of face value yesterday, for yields of 40 to 50 per cent. However, there was little or no dealing activity in the stock.

Heron has continued to service bonds issued in other currencies. On Monday, it met an interest payment on a $100m floating-rate note issue.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
CANADIAN DOLLARS						
GECC(b)†	150	8	101.575	1997	(b)	Kidder Peabody Intl.
SWISS FRANCS						
City of Gothenburg(a)☆☆†	50	6.5	101	1994	-	Credit Suisse
NEW ZEALAND DOLLARS						
R & I Bk of W.Australia(a)†	50	8.5	101.25	1999	2/1.25	Hambros Bk

☆☆Private placement. §Convertible. ¶With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Amount increased from C$100m. Fees undisclosed. Non-callable.

Japan may ease rules on shelf registration

JAPAN's Ministry of Finance may ease the regulations on shelf registration for domestic bond issuers, Reuter reports from Tokyo.

The MoF is considering making credit ratings a criterion, allowing companies with a single-A rating or better to make a shelf registration. It may also lower quantitative hurdles for other borrowers, the official said.

Securities companies last November urged the MoF to take such moves because the Tokyo stock market slump has slashed the pool of firms eligible to make shelf registrations, a brokerage official said.

The MoF introduced the shelf registration system in October 1988, shortening the period between initial registration and bond issuance to less than a week from several weeks.

Brokerage officials said the MoF's decision on the deregulation is likely to be made as early as July, but the MoF official declined to comment on the timing.

Investors get ready to deal in HSBC securities

By Simon London

INVESTORS in the UK equity and bond markets are preparing to trade in securities issued by Hongkong and Shanghai Banking Corporation, ahead of today's final closing date of its offer for Midland Bank.

Liffe, the London futures and options exchange, said yesterday it would launch an equity option on HSBC shares if the offer for Midland was declared *unconditional*.

HSBC has said that it would list sterling-denominated shares on the London Stock Exchange if the offer went through. The merged bank is likely to be in the top 20 UK companies ranked by market capitalisation.

The steering committee which controls the FT-SE 100 Index of leading UK equities ruled earlier this month that HSBC shares will qualify for *inclusion in the index*.

Stock options are increasingly popular with institutional investors as a tool to manage portfolio exposure to individual equities. The option will be the 69th individual stock option traded on Liffe and the first since the exchange merged with the London Traded Options Market in March.

The exchange already trades options on Midland Bank shares, which will be phased out when the last outstanding contract expires in December. The HSBC option will follow the same contract specifications as other equity options, with each contract carrying a *nine-month expiry date*.

On Friday, "grey market" dealing – trading before the issue price has been announced – begins in the £454m subordinated loan stock offered to Midland shareholders under the offer.

Banks not involved in underwriting the bond issue were generally optimistic on the prospects for the deal.

Under the revised offer unveiled last month, the 10-year paper will be priced to yield 2.4 per cent more than UK government bonds, more generous than the 1.6 per cent yield spread originally proposed.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	18	24	40
Other Fixed Interest	11	0	4
Commercial, Industrial	135	446	860
Financial & Property	67	223	505
Oil & Gas	9	21	58
Plantations	0	0	9
Mines	14	39	97
Others	46	36	48
Totals	300	789	1,621

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings June 22
- Last Dealings July 3
- Last Declarations Sept. 17
- For settlement Sept. 28

3-month call rate indications are also shown on this page.

Calls in: Amstrad, BP, Brit. Steel, Devenish, Ferranti and Saatchi & Saatchi. Puts in: Brown Shipley and FNFC. Puts & Calls: Brit. Aero. and Brit. Steel.

LIFFE EQUITY OPTIONS

[illegible]

June 24 Total Contracts 44,778
Calls 23,257 Puts 21,521
FT-SE Index Calls 4,361 Puts 7,791
Euro FT-SE Calls 52 Puts 1,913
Eurotrack 100 Index Calls 0 Puts 0
*Underlying security price. † Long dated expiry months. Premiums shown are based on middle prices.

TRADITIONAL OPTION 3-month call rates

	p
INDUSTRIALS	
Allied-Lyons	40
Amstrad	6
Astec (BSR)	3
BAT Inds	50
BOC	65
BTR	35
Barclays	29
Blue Circle	24
[illegible]	34
Bowater	60
Brit Aerospace	28
British Steel	7
BT	25
Cadburys	36
Charter Cons.	37
Comm Union	34
Courtaulds	43
Eurotunnel	[illegible]
FKI	8
FNFC	7
Forte	19
GKN	[illegible]
Gen Accident	36
GEC	17
Glaxo	52
Grand Met	36
GRE	13
Hanson	18
ICI	65
Ladbroke	16
Legal & Gen	29
Lex Service	22
Lloyds Bank	32
Lonrho	12
Lucas Inds	12½
Marks Spencer	27
Midland Bank	30
NatWest Bank	26
P & O Dfd	37
Racal Elect	6½
RHM	18
Rank Org	55
Ratners	3
Reed Intl	44
Sears	8½
SmKl Behm A	60
TI	55
TSB	11½
Tesco	22
Thorn EMI	63
T & N	11½
Unilever	70
Vickers	15
Wellcome	75
PROPERTY	
Brit Land	15
Land Sec.	30
MEPC	25
Mountleigh	1½
OILS	
Aviva Pet	25
BP	18
Burmah Castrol	46
Conroy Pet	6½
Gaelic Res	½
Premier Cons	2¾
Shell	35
Tuskar Res	½
MINES	
RTZ	47

AAH improves 12% to £32.2m

By Roland Rudd

AAH HOLDINGS, the diversified distribution group, reported a 12 per cent increase in pre-tax profits for the year to March 31 on the back of a strong performance from healthcare services.

Pre-tax profits increased from £28.7m to £32.2m. Turnover rose from £1.1bn to £1.3bn.

Sales benefited from the group's acquisition of two warehouses from Medicopharma, a significant competitor, which withdrew from the UK market in November.

A subsequent inquiry by the Monopolies and Mergers Commission delayed integration of the acquired warehouses and recommended the divestment of a third warehouse in Aberdeen. The group is now rationalising the two new warehouses into its network.

Healthcare services, which now account for 73 per cent of trading profit, reported increased profits of £26.7m (£22.4m).

Environmental services also reported increased profits of £4.3m (£3.6m) helped by increased tenders for local authority land maintenance and waste management contracts.

Three divisions continued to be affected by the recession: builders supplies saw its profits fall from £3.7m to £2.6m, consumer products fell from £2.2m to £2m and distribution services were down from £1m to £600,000.

Mr Bill Pybus, chairman, said he was confident that all three would pick up once the economy improved. Their share of the overall trading profit, which increased to £36.2m (£32.9m), is likely to continue to fall.

Increased working capital pushed up average borrowings to £39.6m (£28.3m) against shareholders' funds of £138.2m.

A final dividend of 10.95p lifts the total to 16.35p (14.85p). Earnings per share rose to 31.8p (29.7p).

● COMMENT

The group's mainstream healthcare businesses will be further boosted this year from the withdrawal of Medicopharma, which in the past has been regarded as one of its most significant competitors. With the MMC inquiry out of the way the group has started rationalising its warehouses, which is expected to lead to a reduction in the total number from 27 to 15. First time contributions from retail pharmacies acquired during the year should ensure that the division continues to report increased profits. More than 85 per cent of the profits are now generated by two divisions, healthcare and environmental services, in growing markets. Forecast pre-tax profits of £38.5m put the shares, which yesterday rose 5p to close at 518p, on a prospective multiple of 15. They look fairly priced at a premium to the market.

Bill Pybus: three divisions still affected by recession

Regulator concerned about future of LBC

By Raymond Snoddy

RADIO Authority is monitoring closely the state of Crown Communications, the loss-making company that owns LBC, London's speech-based commercial radio station.

On Monday Crown reported pre-tax losses of £5.58m in the six months to March 31, a performance that compared with losses of £4.68m at the interim stage last time and losses of £6.79m in the year to last September.

The main concern of the Authority, the regulatory body for commercial radio, is with the future of LBC, a station that has been increasing its share of the audience and trading profitably.

The Authority, it is believed, has had preliminary discussions with potential investors to try to safeguard the position of LBC if the financial position of Crown were to deteriorate.

Two years ago Crown shares were trading at 250p, but by this week the price had fallen to 8p.

In common with other media businesses the company has been hit by the recession, but in Crown's case this has been exacerbated by losses from an investment in RFM, a radio network with 25 stations in France.

Mr Christopher Chataway, Crown's chairman, said yesterday that the company would be reducing its stake in French radio but maintaining a presence. Partners were also being sought for other Crown businesses such as IRS, the commercial radio sales house.

Mr Chataway has assured shareholders that the company still has the support of its banks. Last month Price Waterhouse, Crown's auditors, said they believed there were adequate financial resources for the foreseeable future but some aspects of the accounts relating to the RFM investment had been qualified.

LBC's licence comes up for renewal in March 1993.

It is clear that if LBC were to become embroiled in any way in the financial problems of its parent there are investors ready to move in.

The general stance of the Radio Authority is to try to keep stations on the air where possible.

Meanwhile in a separate development yesterday Lord Chalfont, chairman of the Radio Authority, told the Association of Commercial Radio Companies they were getting a bit too agitated about the re-franchising round starting in the autumn.

"The Radio Authority has no predisposition to change for change's sake," Lord Chalfoni said.

Later he added that the "large majority of existing stations would get new licences if they were performing successfully."

Travel side helps Hogg Robinson jump to £15m

By Angus Foster

HOGG ROBINSON, the travel, transport and financial services company, yesterday announced a sharp increase in profits compared to 1990-'91, when its travel business was hit by the Gulf war.

Pre-tax profits rose 86 per cent to £15.2m (£8.16m) in the year to March 31, on sales up 11 per cent at £102.5m (£92.5m).

At the interim stage, which covers the busy summer holiday period, profits improved by almost a quarter to £10.85m on sales of £52m (£48.6m).

The results were slightly ahead of expectations and the shares gained 7p to 220p.

Mr Brian Perry, chairman and managing director, said all divisions had performed well, especially financial counselling and European transport. Bookings for this summer through the company's 214 high street travel agencies were running at about 8 per cent ahead of last year.

"But it's been declining in the last six weeks and a hoped for surge after the election didn't materialise," he said.

The travel division turned from operating losses of £2.63m – caused by the Gulf war and £3m of cost cutting – to profits of £4.44m. Following last year's rationalisation involving 200 job losses, productivity increased 16 per cent. Business travel also improved.

Transport, which covers commercial freight operations in Europe and the Falkland Islands, lifted operating profits to £4.66m (£3.92m). Turnover was helped by a five-month contribution from Belgian trailer company Dens group, acquired last year for £6.83m.

Financial services, which saw good growth advising on employee pensions, lifted operating profits to £4.65m (£3.66m).

Interest payments fell to £3.1m (£4.44m) due to lower interest rates and a £4m fall in net cash to £29m at the year end.

Earnings almost doubled to 14.01p (7.4p). The total dividend payment for the year is 6.3p (5.55p), via a recommended final of 3.8p (3.3p).

London Elec up 38% and stresses dividend growth

By Juliet Sychrava

LONDON Electricity yesterday reported a 38 per cent increase in pre-tax profits to £142.5m for the year to March 31 and made the strongest dividend statement of any electricity company so far.

"We have always maintained the prudent policy of growth broadly in line with underlying earnings, and expect to see that sustained," said Mr Roger Urwin, chief executive. The company increased its final dividend to 11.8p (10.45p) for a total of 16.8p (10.45p).

This followed warnings by other companies that the bumper dividend increases of this year would be a one off.

Underlying London's confidence are the best customer service and the lowest tariff increases this year of all 12 regional electricity companies.

The core electricity distribution business accounted for most of the advance from the pro forma pre-tax figure of £103.3m. Earnings per share rose from 34.7p to 47.5p.

About £32m of the increase in distribution operating profit to £158.3m was due to an extra increase in tariffs in April 1991, to compensate for undercharging the year before.

The electricity supply business made £5.8m (£9.8m) after bad debts rose from £5.7m to £12.6m.

The City forecasts pre-tax profit of £162m-£183m this year, putting the company on a prospective p/e of between 6.5 and 7.5. The dividend is expected to be 18.5p-19p.

● COMMENT

London is nothing if not upfront, and should be commended at least for attacking retail and contracting, where other companies have left them to vegetate. And publicly pouring money into restructuring suggests that it believes it can turn the businesses round. Roger Urwin inspires City confidence, and the company's direct approach means it is good at giving nitty gritty numbers. But – perhaps because of its directness – London has always been bad at marketing itself. Manweb, for example, has a similar strategy, but has won hearts by promoting itself as the company that "sticks to the knitting." Whether this bodes ill for London's retailing operation remains to be seen.

Kenwood just over-subscribed

By Richard Gourlay

THE PUBLIC offering of shares in Kenwood, the kitchen appliance manufacturer which will begin trading on the market next week, was only just oversubscribed, Schroders, the merchant bank sponsoring the flotation said yesterday.

Subscribers will therefore be allocated only slightly less than they wanted. Some 11.61m shares were on offer.

The same number of Kenwood shares were placed with institutions at 285p on June 17, valuing the group at £104.5m.

Schroders said it was aware that there was institutional demand for shares at the placing stage which had not been immediately satisfied.

The same institutions did not, however, appear to have applied in any great scale for additional shares in the public offering.

Analysts said the relatively low subscription level and the soggy nature of the market in general might lead advisers to other imminent flotations – like MFI, Taunton and Anglian Windows – to reconsider their pricing in order to avoid leaving shares with underwriters.

The Kenwood placing was structured in such a way that institutions which applied for shares in the placing also participated in underwriting the public offering.

Analysts said that given the current gloom pervading the stock market, the institutions declined the public offering because they were nervous they might be left with an undersubscribed offer.

Depending on conditions in the stock market, the institutions could try to build the stakes they require in the aftermarket once the shares start to trade on July 1.

Analysts do not expect the shares to open at a significant premium to the flotation price.

Wagon Industrial falls in line with forecasts to £14m

By Peter Pearse

PRE-TAX profits at Wagon Industrial Holdings fell from £21.5m to £14.1m in the year to March 31, pretty much in line with forecasts. The shares rose 1p to 442p.

Mr John Hudson, chief executive, said Wagon had "taken the bad news on the chin" – there were exceptional costs of £2.06m, provided for in the first half, relating to factory and product restructuring.

While continuing its policy of "selective" and "infilling" acquisitions, often from the receiver – thereby enlarging the customer base for modest outlay and increasing throughput – the group has undergone 18 months of "rationalising our main sites and downsizing the continuing ones".

With its net cash pile growing to £14.5m (£12.2m), Mr Hudson said Wagon would continue its acquisition strategy "indefinitely".

Trading profits of the material handling and storage side fell to £8.81m (£10.7m) on turnover of £82.4m (£105.8m). Link 51 and its other shelving and racking companies "experienced flat or declining volumes", according to Mr Paul Taylor, chairman.

The engineering division's profits declined to £3.02m (£6.54m) on turnover of £58.2m (£62m).

Mr Hudson said Paul Forkardt, the German machine tool maker, had a bad year as its East German and eastern European markets disappeared and its western markets suffered from recession.

Automotive products provided the best news with a profits advance to £5.43m (£4.82m).

Earnings were 23.72p (35.51p) per share at the basic level and 23.79p (35.89p) fully diluted. The total dividend was maintained at 17p with an unchanged final of 10.675p.

● COMMENT

With the recovery in UK markets neither immediate nor even anticipated in the longer term, Mr Hudson and his team have shown themselves to be good managers in recession. In bold moves they have actively tackled the thorny cost base problem – working capital is down £7.3m, capital expenditure is one-and-a-half times depreciation, £4m-£4.5m has been lopped off the fixed overhead and cash generation has been good in a bad year. Cheap infill acquisitions suit slow economic growth, though Wagon has the cash for anything larger, should it want to splash out. Pre-tax profits of about £19m are expected for the current year, with earnings between 32.3p and 34p per share. This gives a prospective multiple of about 13.3. As a quality cyclical stock with recovery potential, accumulation would carry little risk.

JLI Group advances to £3.2m

By Maggie Urry

JLI Group, the dried fruit, nuts and pickle ingredients processor, raised pre-tax profits from £1.33m to £3.17m in the year to March 31, just beating the forecast made with its most recent rights issue.

The company made two rights issues during the period, raising £20.7m net and increasing the share capital by 125 per cent, and made or lined up five acquisitions. The group has decided to concentrate on its food processing businesses where it can add value and improve margins. Group turnover in the 12 months fell to £84.3m (£90.1m), though this was after the merchanting division sales fell from £24.1m to £8.2m before being discontinued.

Mr Yoav Gottesman, chief executive, said some of the acquisitions had been lossmaking when they joined the group, but had been turned round.

Reduced interest payable of £940,000 (£1.7m) boosted pretax profits. A lower rate of tax partly offset the effect of the increase in share capital, which held earnings per share growth to 16 per cent from a restated 8p to 9.3p.

As forecast with the rights, a proposed final dividend of 3p (2.87p) lifts the total to 4.5p (4.3p).

BTP alters focus after £18.2m

By Richard Gourley

BTP, the specialist chemicals company, yesterday reported a marginal increase in profits over the previous record year, in difficult trading conditions.

Mr Rob Martin, finance director, said the new year had started on a "firm note," mainly because of foreign markets, which will account for two thirds of sales this year. There was no sign of demand rising in the UK.

Pre-tax profits in the year to March 31 rose from £18m to £18.2m on sales up 14 per cent at £175m (£158m). Margins in the chemicals division had come under particular pressure in the UK due to the recession and because growth had been concentrated in the less profitable overseas markets.

Earnings fell from 15.39p to 14.81p, but the company proposes an increased final dividend of 5.75p (5.45p) giving a total for the year of 8.85p (8.4p).

Due to the £28m rights issue in February, part of which was used to buy two French adhesive businesses, the year ended with £6.5m of cash, compared with £8m of debt last year.

Mr Martin said benefits would increase from reducing dependence on the UK market. By the end of this year, the company would derive only a third of its sales from the UK, down from 38 per cent in 1991/92, with another third derived from continental Europe and 20 per cent in the US.

Sales in the chemicals division rose 20 per cent to £91m but operating profits were only 10 per cent up at £11.2m (£10.2m). Industrial sales rose to £51.3m (£46.7m) but profits fell from £4.58m to £4.08m following poor performances in the storage and coatings businesses.

BTP shares fell 3p to 238p.

Tarmac begins disposal programme with US sale

By Andrew Taylor, Construction Correspondent

TARMAC, has announced the sale for $42.5m (£22.9m) of its Californian contracting and aggregate operations, making it the latest British construction group to begin a disposal programme to reduce heavy borrowings.

Mr Neville Simms, recently appointed chief executive, wants to raise between £200m and £250m from sales of non-core businesses.

Earlier this week Costain, another large British construction group, announced plans to float off part of its profitable Australian coal mining subsidiary in a further move to reduce borrowings.

Wimpey, the construction and engineering group which is Britain's second biggest house builder, has raised more than £300m during the past 12 months from disposals. Taylor Woodrow, another large contractor, has announced a similar programme to dispose of non-core and underperforming assets to reduce debts.

At the end of last year Tarmac had net borrowings of £456.9m and gearing of 51 per cent. Mr Simms has said that he wanted to reduce gearing to 25 per cent, mainly through disposals. It is hoped that more than £100m will be raised from a first phase of sales, to include the Californian construction business and the British oil refining interests at Ellesmere Port and Dundee.

A second phase of disposals will include Econowaste, the UK waste disposal business, which went on the market last week, and which Tarmac expects to fetch between £80m and £100m.

Granite Construction of the US has bought the Californian businesses. The businesses were acquired by Tarmac in 1986 for about $20m.

Tarmac, which is Britain's biggest house builder, also has housebuilding operations in Washington state and Maryland, which are being retained.

ML £2.24m in the red

By Daniel Green

EXCEPTIONAL losses of £3.26m at ML Holdings, the aerospace, defence and electronics distribution company, pushed the company into a pretax loss of £2.24m for the year ending March 31 1992 compared with a profit of £6.29m the previous year.

ML, which parted company with its chief executive on Tuesday, said it was planning to make disposals to reduce its 114 per cent year-end gearing.

Mr Timothy Sallitt, the chairman and acting chief executive, said that the results were "unsatisfactory".

Cutting debt remained a high priority. That would be achieved by cuts in working capital and "disposals of underutilised assets and businesses not central to the company."

The exceptional losses were the result of staff cuts of 20 per cent over 15 months. An extraordinary £762,000 loss was a consequence of disposals.

The reduction in the company's size was reflected in the turnover for the year of £84.3m (£92.4m). The loss per share was 5.1p (8.3p earnings) and the final dividend is cut to 1p (2.6p) for a 1.85p (3.45p) total.

Mr Sallitt said the disposals would not be in the company's defence businesses of weapon launching and decoy systems, which were performing strongly.

The company said it would return to profit this year with analysts estimating more than £2.5m pre-tax.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
AAH	fin	10.95	Oct 20	9.9	16.35†	14.85
Bristol Water	fin	18.7	Oct 1	‡	28	-
Cassidy Bros §	fin	1.65	Aug 28	1.5	2.4	1.5
Courts	fin	3.17	Oct 16	3.17	5	5
ERF	fin	2	-	3	4	5
Feedback §	fin	nil	-	0.5	nil	0.5
First Leisure	int	1.88	Oct 30	1.745	-	5.695
Hogg Robinson	fin	3.8	Aug 14	3.3	6.3	5.55
Hoskyns	int	0.75	Aug 7	0.75	-	2.4
JLI	fin	3	Sept 10	2.87	4.5†	4.3
Kleinwort Charr	int	1.25	Aug 7	1.25	-	5
Latham (James)	fin	2.25	Aug 19	4.5	3.75	6.5
Lee (Arthur)	int	1.65	Aug 14	1.65	-	5.9
London Elect	fin	11.8	Oct 5	10.45	16.8	10.45
ML Holdings	fin	1	Oct 1	2.6	1.85	3.45
Southn Business	int	1.15	Aug 13	1.03	-	2.94
Wagon Industrial	fin	10.675	Oct 2	10.675	17	17

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Comparisons not valid due to change in share structure.

ERF cuts loss and plans expansion

By John Griffiths

ERF, the UK's last independently-owned truck maker, cut its pre-tax losses from £4.47m to £563,000 in the year to March 28 in the teeth of the worst UK truck market slump since the second world war.

Mr Peter Foden, the chairman, also disclosed plans yesterday to lessen ERF's dependence on the volatile UK market by spreading sales to continental markets, in what he described as "one of the most important steps ERF has taken for many years".

However, the overall result for the year obscured a deteriorating performance in the second half as a result of a large export contract to Zimbabwe coming to an end. At the interim stage to September 30 ERF achieved a pre-tax profit of £330,000, reversing 18 months of losses.

Neither the figures nor the European expansion plan were enough to allay market worries about the lack of recovery in the UK, on which ERF remains, for the moment at least, heavily dependent. According to Mr Rod England, ERF's sales and marketing director, "there is no sign of an upturn".

Its shares closed down 2p at 220p, influenced also by a final dividend reduced from 3p to 2p after an unchanged interim of 2p. Losses per share fell to 12.75p (44.41p).

A brief post-general election upturn had fizzled out.

Turnover for the year moved ahead to £118m (£103m) and there was a profit at the trading level of £549,000 (£3.54m loss). However, this was before an exceptional charge of £1m to cover the development of a new range of environmentally "cleaner" trucks, preliminary expenses of the continental European venture and a further 53 redundancies which have reduced ERF's workforce to a total of 754.

Mr Foden said that further development of both projects would increase exceptional costs next year, probably to about £2m. In the absence of a UK recovery, that was likely further to raise the company's gearing from its current level of 17 per cent, up from 6 per cent last year.

However, the rise is expected largely to reflect increased on-balance sheet leased assets to bring the new truck range into production. "Borrowings for operating purposes are likely to remain close to zero and will remain under close control", said Mr Colin Fuller, finance director.

ERF expects to produce an unchanged 2,000 trucks this year but warned that whether more redundancies were required would depend on the timing and strength of recovery in the UK market.

It plans to unveil its attack on continental Europe at the Paris commercial vehicle show in October, with first vehicles being shipped in November. Initially it is setting up sales operations in France and Spain, and has established two wholly-owned subsidiaries, ERF (France) and ERF (Espagne) to be set up dealer networks and administer the business.

Mr Foden said it "would not be unreasonable" for ERF to gain a 1 per cent to 2 per cent share of the French and Spanish heavy truck markets over the next two to three years. At current market levels, that would add about 1,200 units to ERF's annual sales.

Currently, its exports are mainly in the form of kits to South Africa and other African startes, plus New Zealand, accounting for about 30 per cent of unit sales.

Financial Times Annual Report Service

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Banque Française du Commerce Extérieur

A reliable banking partner to a dynamic corporate and institutional clientele operating in the international markets. BFCE offers corporations diversified financing instruments as well as new and highly innovative products to manage their payments *in France and worldwide. The Bank solves currency and* interest rate risk management problems and provides a full array of investment instruments. BFCE is expanding services for mergers and acquisitions and equity financing, through its subsidiary, Société Financière de la BFCE.

34

Roussel Uclaf

Roussel Uclaf, whose core businesses are Healthcare, Parapharmacy, Agroveterinary and Chemicals, is one of France's largest groups in the pharmaceuticals industry. Operations outside France generate some 64% of its total consolidated sales, and in 1991 Roussel Uclaf in particular emphasised growth in Europe and Japan. More than FF 1.5 million was invested during the year in research and development on four therapeutical fields in human healthcare - antibiotherapy, the cardiovascular system, endocrinology and immunology - and on insecticides in the agroveterinary business. Consolidated sales: FF 14.35 million (+10% over 1990). Net income (Group share): FF 598 million (+0.2% over 1990).

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Cap Gemini Sogeti

CAP GEMINI SOGETI, an independent and public group with about 17,000 employees, is one of the leading computer services companies in the world and the largest in Europe. In 1991, CAP GEMINI SOGETI realized consolidated revenues of FF 10 billion (+9%), of which 61% were generated outside France. Net income after tax amounted to FF 560 million. The company's leadership is acknowledged in all advanced software technologies.

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CPR Group

In 1991, the CPR Group concentrated on its three traditional business lines: proprietary asset management, brokerage, and investment management services.

CPR pursued its policy of international diversification actively, and now operates in six countries. By year-end half the consolidated balance sheet consisted of assets outside the franc zone.

1991 key financial information:

Total assets: FRF 77 billion
Capital base: FRF 2.55 billion
BIS ratio: 11.2%

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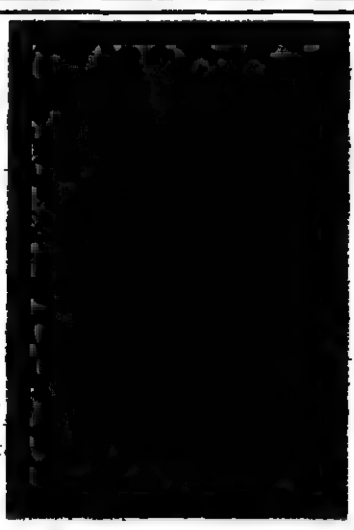

Moulinex

1991 – The year of the Krups acquisition was a good one for the Group. Sales: FFr 8.357 billion. An increase of 11.6% on a comparable basis. Dividend was maintained at FFr 6 despite the greater number of shares resulting from the increase in capital of FFr 213 million.

The Mexican company, Vistar was wholly acquired. Opening of an international research centre in Caen and a new plant in Egypt.

1992 – Implementation of marketing operations to expand the Group's business in Central and Eastern Europe, and North America.

For Krups, to boost sales in the two main markets, Germany and the USA, as well as achieve sustained development worldwide.

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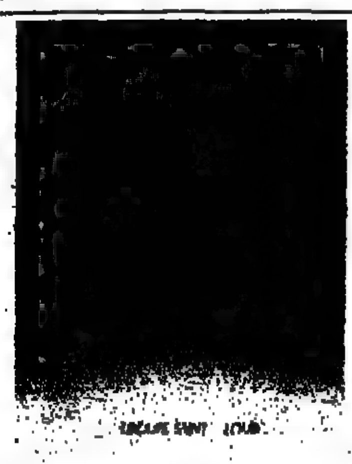

Saint Louis

A EUROPEAN GROUP OF HUMAN DIMENSION.

Saint Louis: A Diversified Industrial Group whose productivity is assured through regular but selective investment. A group which has diversified in order to maintain steady growth. A group with the will and financial resources for an ambitious development policy.

Saint Louis: Two special areas of expertise: Agri-foodstuffs and Paper. With Générale Sucrière and Euralim, Saint Louis generates sales of FF 11 billion in agri-foodstuffs with a work force of 8,500. With Arjo Wiggins Appleton, the leading paper manufacturer in the European Community with £2.5 billion in sales and 19,000 employees, Saint Louis is the principal shareholder with a 39% holding.

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ANNUAL REPORT 1991

Ciments Français

Ciments Français is the world No 3 cement producer, with a strong integrated position in construction materials (aggregates, ready-mixed concrete and concrete products). The company also pursues ongoing technical innovation and applied research. With operations in twelve countries and a total workforce of 18,000 persons, Ciments Français had consolidated sales of FF16.5 billion in 1991, nearly half of which was generated outside France. Today, Ciments Français has entered a new phase in its development following the link-up in April 1992 with Italcementi, Italy's largest cement producer. The group Chairman and Chief Executive Officer is Mr Pierre Conso.

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Crédit local de France

During 1991, the French leading banker to local authorities has strengthened its financial results:

- consolidated net income : FF 1075 million, an increase of 13% over 1990
- new long-term loans originate : FF 40 billion, an increase of 16% over 1990
- stockholders' equity : FF 13 billion, an increase of 17% over 1990

FINANCING MUNICIPAL AND REGIONAL DEVELOPMENT.

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CarnaudMetalbox (CMB Packaging)

With 1991 turnover of FRF 25.5 billion, CMB Packaging employs more than 31,000 at 150 factories in 30 countries. CMB Packaging is Europe's leading packaging manufacturer and one of the world's largest companies engaged exclusively in packaging. In order to optimise its strong reputation among its clients, shareholders and partners, who indeed, even after the 1989 merger, still refer to the original Carnaud and Metalbox names, the company will change name. This change, proposed by B. Jürgen Hintz, President of the Directoire, was approved by the shareholders at the Annual General Meeting on 20 May 1992. CMB Packaging is now named CarnaudMetalbox.

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Crédit National

First-hand knowledge of industry, financial strength and high ethical standards will enable Crédit National to fulfil its ambition of being a leading corporate banking specialist in the 1990's. The Group offers its customers the *financial know-how needed for their growth, the capacity to develop complex* and competitive financial solutions, as well as the capacity to take long-term risks. The Group's activities have been reorganised around four businesses:

- corporate lending,
- equity financing,
- real estate activities,
- capital market activities.

Chairman and Chief Executive Officer : Yves Lyon-Caen

43

Groupe EMC

EMC ranks among the worldwide farming community's leading industrial suppliers and is a major operator in the global market for potash derivatives. The Group's businesses are organised around three main segments:

- potash, chiefly for fertiliser production.
- chemicals, with organic, inorganic and fine chemical specialty products.
- animal feed and animal products, comprising animal feed marketing, animal feed production and animal health: pork genetics, pork products and eggs.

Other businesses include diversified services in agronomy, engineering, transportation and industrial waste disposal.

1991 Sales: 15.8 billion FF - Chairman: R. Greif.

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CANAL+

Created in 1984 to operate an over-the-air television service in France, CANAL+ has become the European leader in the fast-growing pay-television industry.

The first TV channel in France in terms of sales and profit, CANAL+ ranks 19th in the CAC 40 Index and 53rd in the FT-SE Eurotrack 100 Index in terms of market capitalization.

In 1991, CANAL+ realized consolidated revenues of FFr 7 billion, up 14%. Net income after minorities increased 18.8% to FFr 1.081 billion.

Chairman; André Rousselet

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ANNUAL REPORT 1991

Lyonnaise des Eaux-Dumez

Everyday on the five continents, the Group Lyonnaise des Eaux-Dumez contributes to higher standards of living and to the protection of the environment. It specialises in environment-related services (water supply, energy technologies, waste management); construction and development (buildings, public works, industrial installations, engineering structures); services to communities (health care, leisure, communications, funeral services). Group workforce totals 120,000 and revenues in 1991 amounted to 87.5 billion French francs. *Net income was 1.17 billion French francs. There was a* record level of investments (9.5 billion French francs).

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ANNUAL REPORT 1991

PSA Peugeot Citroën

The PSA PEUGEOT CITROEN group is Europe's third largest automobile manufacturer, with 12.1% of the European market in 1991 and 2,045,000 vehicles produced. The first French car manufacturer with 33.1% of the French market, PSA PEUGEOT CITROEN is also France's largest exporter, with FF 71 billion in export sales. In 1991, PSA PEUGEOT CITROEN had sales of FF 160 billion and earned net income of FF 5.5 billion.

Chairman and Chief Executive Officer ; Jacques Calvet.

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COGEMA

Cogema

Cogema is a world leader in the nuclear fuel cycle. Consolidated revenue for the Cogema Group was FF 21.7 billion in 1991, with export sales accounting for 31%.

Significant Events in 1991

- Settlement of the Franco-Iranian litigation gave Cogema's subsidiary Eurodif extraordinary income of FF 1.7 billion.
- Reprocessing Division revenue rose 21% to FF 8 billion as capacity continued to rise at the new UP3 reprocessing plant at La Hague.

Net income for the Group in 1991 held steady at FF 260 million.

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Lafarge Coppée

Lafarge Coppée is one of the world's foremost producers of building materials, with leading positions in each of its business areas : cement, concrete and aggregates, gypsum, specialty products and bioactivities. In 1991, the Group experienced a poor year, with FRF 31.6 billion in consolidated sales and FRF 1.6 billion in net income from consolidated companies. Its long term strategy remains focused on expansion in Europe, the Mediterranean rim and in developing countries (Turkey, Brazil...), a systematic penetration of Asian markets, the consolidation of regional positions in North America and worldwide development of specialty products.

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COMPANY NEWS: UK

£70m discos and bowling alleys expansion planned over the next two years

Recession trims First Leisure interim profit

By Christopher Price

FIRST LEISURE, the ten-pin bowling, discotheque and theatre group, yesterday reported pre-tax profits lower at £11.7m, compared with £12.1m, for the half year to May 3 1992.

The results reflected the continued effect of the recession, with turnover showing a marginal decline from £46.88m to £46.11m, as spending was reduced.

Lord Delfont, chairman, said that the group had yet to experience any sustained improvement in customer demand and he expected difficult trading conditions to prevail throughout the second half.

Mr John Conlan, chief executive, said the group managed to hold ground in some key divisions and he expected an improvement in second half trading, particularly in discotheques and bowling, as more new openings and refurbishments come on stream.

He said that the expansion programme would be unaffected by the current trading climate. There are three discos and eight bowling alleys planned to open over the next two years, which together with refurbishments will involve a £35m a year capital expenditure plan.

The profit was struck after taking account of a decline from £1.45m to £1.03m on property disposal profits but after a drop in interest charges from £2.4m to £1.6m.

Earnings per share rose, from 5.63p to 5.88p, and the interim dividend is raised to 1.88p from 1.745p.

The resorts business, which includes Blackpool Tower, turned in the best relative performance, increasing pre-tax profit 17 per cent to £1.4m after fine Easter weather improved demand.

Profits from ten-pin bowling and snooker were steady at £7.2m, with Mr Conlan pointing out that last year's figures also benefited from four new outlets, compared with just one for this period.

Discotheques profits declined from £6.9m to £6.1m, with the jewel in the group's crown – the Empire (now Equinox) in London's Leicester Square – closed for a £2m refurbishment.

Ashley Ashwood

John Conlon: group managed to hold some ground

● COMMENT

Sticking slowly but tenaciously to its unglamorous niches, First Leisure continues to enhance its market share and maintain its margins. Yesterday's interim figures were a bit better than expected and the company is confident of second-half improvement as refurbishments and expansion pay off. But its warnings of tough second-half trading led to a shaving of full-year forecasts to around £32m for a p/e of 19. The rating fully reflects First Leisure's recessionary strengths and growth potential when the economy improves. Investors looking for greater exhilaration in the leisure sector will find it more diversified and underperforming stocks.

Warning of loss wipes 22p off Henlys' share price

By Maggie Urry

HENLYS GROUP, the motor trader, coach and bus manufacturer and distributor which has changed its name from Plaxton, yesterday warned that it would make a loss in the first half of 1992 and saw its shares slump 22p to 58p on the news.

Mr Robert Wood, chief executive, said the problem area was the coach and bus manufacturing plant in Scarborough, North Yorkshire, where some of the 750 jobs would be cut in the autumn following a review by management consultants.

Henlys had already cut coach production by closing three plants and concentrating production at the Scarborough plant. Mr Wood said that despite this action more was needed as demand had fallen again, even after a 60 per cent drop in the previous 18 months.

He said that there were also teething problems with the group's new range of coaches. Henlys, which has half the UK market for luxury coaches but does not export them, has been trying to enter the Continental European market by introducing a range meeting European standards.

Mr Wood said that other parts of the group were showing improved results, but that City forecasts of a small profit for the year were too optimistic. Hoare Govett, the stockbroker, is now forecasting an annual loss of £1.5m.

In 1991 the group made a pre-tax loss of £6.8m, including an interim loss of £4.5m.

Mr Wood said that cash flow was within budgeted levels and balance sheet gearing was in line with the 66 per cent recorded at the end of 1991.

Courts suffers 11% downturn to £8.09m

Courts (Furnishers) suffered a *fall in pre-tax profits from £9.05m to £8.09m for the year* ended March 31, with the trading environment remaining exceptionally difficult.

The 11 per cent downturn in profits was after taking account of interest charges of £5.37m (£5.52m), a transfer to deferred profit of £5.31m (£5.55m) and property disposal losses of £560,000 (profit £1.64m). On the plus side there was a £1.28m share of profit from the new Trinidad associate.

Earnings worked through at 19.7p (23.8p). A final dividend of 3.17p holds the total at 5p.

Group turnover increased by 5 per cent to £184m. The figure excluded any contribution from the Trinidad associate but included the depreciatory effects of the 66 per cent devaluation of the Jamaican dollar.

Southern Business shows 10% advance to £7.11m

By Angus Foster

SOUTHERN Business Group, the photocopier and vending machine supplier which has had its share price overshadowed until recently by criticism of its copy agreements and accounting practices, has announced a 10 per cent increase in interim profits.

Pre-tax profits rose from £6.47m to £7.11m in the six months to March 31 helped by recent acquisitions.

Mr David McErlain, chairman, said an aggressive marketing programme launched a year ago led to a small increase in copy volumes.

Turnover was 10 per cent higher at £27.4m (£24.9m), reflecting organic growth, the impact of acquisitions and some price increases.

Mr McErlain said the group continued to consider opportu*nities for further acquisitions* complementary to its activities which offered a good potential return on the initial investment.

Forward contracted income, revenue the company stands to receive from outstanding contracts, increased by 2.3 per cent to £305m.

Net borrowings were stable at £2.8m with gearing at 5 per cent.

Earnings per share were 8.8 per cent ahead at 4.93p (4.53p) and the interim dividend is raised by 11.7 per cent to 1.15p (1.03p).

The company has recently renewed a five-year agreement with Canon, which accounts for about 85 per cent of the photocopier machines Southern Business supplies.

The shares closed unchanged at 110p.

Price competition causes Hoskyns' dive to £5.6m

By Alan Cane

PRE-TAX profits at Hoskyns, the UK-based computing services company owned by Cap Gemini Sogeti of France, nosedived in the first half as the recession and fierce price competition squeezed margins relentlessly.

Profits before tax in the six months to April 30 fell 35 per cent to £5.6m (£8.6m) pushing earnings per share 39 per cent lower at 3.9p (6.4p).

Turnover fell to £95.7m (£102.8m) suggesting that the company's reputation for unbroken growth may not be restored quickly.

The interim dividend of 0.75p is being maintained, however, in the expectation of improved trading in the second half.

Mr Geoff Unwin, chairman and chief executive, said the results reflected the grim trading conditions prevailing. In addition, the company's strong *performance in the first half of* 1991 made comparisons even less favourable.

"Our order book in most parts of the business is looking healthier and our increasing headcount reflects a stronger demand for our services. However, we still se no signs of recovery in certain areas and margins remain tight."

Hoskyns has proved a reliable performer over the past 13 years, coupling sound management with market leadership in fast growing areas such as facilities management.

Mr Unwin said that while consultancy and systems integration work were producing reasonable returns, the education and training market was exceptionally tough.

Price competition was forcing down profits margins in facilities management to unwise levels.

NEWS DIGEST

Bristol Water turns in £5.24m

BRISTOL WATER HOLDINGS yesterday reported its first annual result since it came to the market in November 1991.

Pre-tax profits for the year to end-March came out at £5.24m and were achieved from turnover of £47.9m. In the previous year pre-tax profits were £2.97m and turnover was £42.1m.

Sir John Wills, chairman, said the improvement in profits had been achieved with the assistance of a cost-cutting programme which had helped secure the efficiency gains necessary for the core business to grow satisfactorily.

The board took a conservative view of diversification, he said, believing that the maintenance and development of the core water supply business should be the company's first priority.

A final dividend of 18.7p makes a 28p total. The dividend is covered 2.5 times by earnings per share of 68.9p (38.9p).

Following consultation with the Director General of Water Services, prices for 1993 would increase by an average 7.3 per cent – 1.1 per cent below the maximum permitted, Sir John said.

Arthur Lee rises to £604,000

Shares of Arthur Lee & Sons, the steel and plastics maker, rose 6p to 38p yesterday following the announcement of a rise in pre-tax profits from £323,000 to £604,000 for the half year ended March 31.

Directors said the improvement in part reflected action to reduce costs, particularly of raw materials and staffing levels where numbers fell to 1,268 against 1,427 a year earlier.

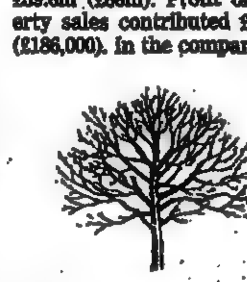
Turnover of the continuing operations slipped from £53.7m to £51.3m. Earnings amounted to 1.28p (1.05p) and the interim dividend is a same-again 1.65p.

The directors pointed out that although the volume of deliveries in some of the group's steel-based operations was currently showing some modest uplift compared with the levels attained in the depth of the recession and, in plastics, demand for medical moulding was encouraging, competition remained intense.

Merchanting decline hits James Latham

Heavy losses in its merchanting activities resulted in an increased deficit of £612,000 at James Latham, timber and builders merchants, in the year to March 31.

In what the company termed "a miserable year" sales fell to £59.6m (£66m). Profit on property sales contributed £318,000 (£186,000). In the comparable 12



twelve months the pre-tax loss was £383,000.

Mr Christopher Latham, chairman, said that within importing activities panel products trading had remained comfortably in profit, but timber trading had produced a mixed performance overall.

The final dividend has been cut to 2.25p (4.5p) for a reduced total of 3.75p (6.5p). Losses per share came though at 8.7p (7.1p).

Grand Central reorganisation

Grand Central Investment Holdings, the food and forestry group which specialises in cocoa and chocolate and has interests in Pacific Asia and Australia, is to reorganise its interests in Singapore and Malaysia.

GCIH Singapore, a subsidiary of GCIH, has conditionally agreed a sale and purchase agreement with Sunshine Allied Investments, a subsidiary of GCIH Singapore, whereby Sunshine will acquire the entire share capital of Quintrinox (Malaysia) from GCIH Singapore.

The consideration of S$17.4m (£5.8m) will be satisfied by the issue of 6.32m new S$1 Sunrise shares at S$2.75 each.

Quintrinox is a holding company formed solely for the purpose of the corporate reconstruction.

Prior to completion of its acquisition by Sunshine Quintrinox will acquire from Anglo Pacific Corporation (Malaysia) – a wholly-owned subsidiary of GCIH Singapore – 70 per cent of Upali and the entire share capital of Network Foods (Malaysia). Quintrinox will then be renamed Upali Group.

On completion of the acquisition of Upali the direct interest of GCIH Singapore in Sunshine will be 69.6 per cent.

Finsbury Smaller share placing

Finsbury Smaller Companies Trust intends to increase its size by a placing – subject to shareholder clawback – of new ordinary shares and a new class of zero dividend preference shares.

The issue will raise about £7.5m. The ordinary shares will be priced at net asset value and the preference shares will be priced to yield about 9.75 per cent.

At the same time Finsbury Growth Trust intends to place its holding of about 41 per cent of the issued share capital of FSCT.

Kleinwort Charter net assets grow

Kleinwort Charter Investment Trust yesterday reported net asset value of 188p at May 31, against 172.3p at November 30 1991 and 184.6p at the end of the first half of 1991.

Net revenue in the six months under review came to £1.98m (£2.17m). Earnings per share were 2.42p (2.66p) and the interim dividend is unchanged at 1.25p.

The trust has decided to focus investment in European stock markets. At May 31 its invested funds were 62.8 per cent in the UK, 3.1 per cent in North America, 0.4 per cent in the Far East (excluding Japan) and 33.7 per cent in Continental Europe.

Residential agency formed in £1.5m deal

A new company, Cluttons London Residential Agency, has been formed through the amalgamation of the London residential agency business of the Cluttons Partnership with the recently-acquired four central London and Hong Kong offices of Barnard Marcus.

The equity funding package of £1.55m has been led and arranged by County NatWest Ventures, the venture capital concern. The package comprises a mixture of ordinary and preference share capital.

The new company aims to provide an independent, service-orientated agency at the middle to top end of the market.

Cassidy Brothers advances 47%

Cassidy Brothers, the USM-quoted toys, games and sports goods group, achieved a 47 per cent rise in pre-tax profits for the year ended April 30.

On turnover 10 per cent ahead at £6.22m the pre-tax result emerged at £695,521 against £473,923.

Mr Thomas Cassidy, the chairman, said that orders were 10 per cent up on this time last year and with regard to the current year all indications pointed to a further increase in turnover which the company was well equipped to satisfy.

Earnings per share advanced to 9.07p (4.32p) and a proposed final dividend of 1.65p (1.5p) makes a total of 2.4p (1.5p).

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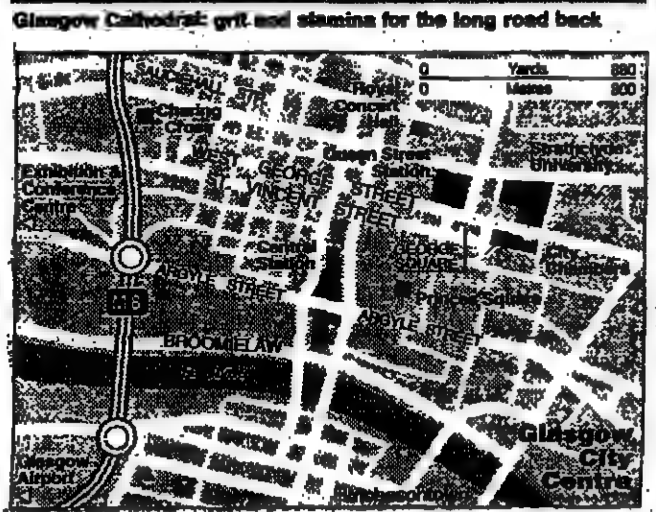
Putting a brave face on the recession. Offices expand. A city of colleges. Page 2

GLASGOW

Services replace industry. Beautifying the Gorbals. The tourist trail. Page 3

Thursday June 25 1992

Glasgow Cathedral: grit and stamina for the long road back



After stemming the decline of the 1960s and 1970s, Glasgow is fighting to avoid the worst of the present recession, writes **James Buxton**. At the same time, it is trying to create and consolidate a new basis for its future prosperity

Alive and kicking

GLASGOW last winter formally sent into retirement its famous slogan *Glasgow's Miles Better*, which, enlivened with the cheery face of Mr Happy, had for a decade been pasted to the side of buses in both Glasgow and London, and, translated into foreign languages, taped proudly to the luggage of Glaswegians travelling abroad.

The decision to drop the slogan was a symbolic moment of transition. It showed that Glasgow thinks the world has now accepted that it has pulled itself out of the decline to which it seemed to be condemned in the 1960s and 1970s, and that it is time for the next stage in the city's recovery.

Yet there seems to be a widespread realisation in the city that the next stage is not likely to be particularly easy, nor are its outlines very clear. The greater sobriety of the new slogan, *Glasgow's Alive*, (said to be more convenient than its predecessor for putting on to almost any document originating in Glasgow) has a durability that may be required during the long haul ahead.

The revival of Glasgow has so far been one of the success stories of urban regeneration in Britain. In the 1970s the economic base of this once great shipbuilding and manufacturing city was declining at an alarming rate; its population fell by 33 per cent between 1961 and 1981, not just through organised dispersal to new towns but by emigration motivated by despair. The city had an intimidating reputation for grime and crime.

A turning point came in 1975 when the new Strathclyde regional council persuaded the government to abandon the creation of another Scottish new town and divert the money to the regeneration of the decayed east end of the city. Gradually a coalition of forces – the Scottish Development Agency, the Labour controlled regional and district councils and the private sector – developed a strategy for recovery, which involved pouring in very large quantities of public money. Much of this came from a £350m EC integrated development grant negotiated by Strathclyde regional council.

Glasgow was perforce to become a largely post-industrial city, concentrating on developing its service activities. The initial aim was to improve the centre of the city, not least by property development, new retail complexes and extensive stone-cleaning, making the centre one of the main generators of wealth.

Glasgow would also exploit its already strong cultural assets to become a tourist destination and develop its distinguished university base to become an exporter of graduates and knowledge.

What made the policy work was the existence of a form of collective leadership that was lacking in Liverpool, a city with comparable problems, which took such a different path to Glasgow in the 1980s. Glasgow's Labour politicians became almost Conservative in their fiscal rectitude and grasp of commercial reality; the city's business leaders are committed people who for the most part live in the city rather than escaping to the countryside in the evening.

The landmarks of revival are the Glasgow's *Miles Better* slogan which struck a happy note with Glaswegians when it was launched in 1983 ("people just flooded into the City Chambers to pick up the stickers," says Mrs Jean McFadden, leader of the district council); the Glasgow Garden Festival of 1988; and the city's year as European City of Culture in 1990, which culminated in the opening of the £28.5m Royal Concert hall.

Yet despite all the achievements, unemployment in Glasgow never dropped below 14 per cent in the recent upturn and has lately risen to 15.5 per cent, with no less than 21.6 per cent of the male workforce out of work. Manufacturing is still declining despite the fact that Glasgow has some good engineering and shipbuilding companies: it now occupies only 16 per cent of the work force.

The population is still falling, although the drop from 765,000 in 1981 to 654,000 in the 1991 census may have been exaggerated by as much as 35,000 by poll tax non-payers not registering in the census.

Above all, while the centre and the west end of Glasgow are now rather smart, and surrounding areas like the east end, Govan and even the Gorbals are improving, there are still great areas of wretched accommodation, poverty and misery in the peripheral areas of Easterhouse, Drumchapel, Castlemilk and Pollok.

Last year, the Scottish Development Agency was wound up and replaced with a network of local enterprise companies under the umbrella of the new Scottish Enterprise. Glasgow gained the Glasgow Development Agency, which has a budget this year of £67m to spend on training, property and environmental improvement and assistance to business.

Mr Stuart Gulliver, its thoughtful, chain-smoking chief executive, exudes what the agency calls the "new mature realism" about Glasgow. "Any turnaround of a city like Glasgow takes about 25 years, a full generation. So far we've done 10 years and transformed the urban landscape, laying a patina of improvement across the city. There's far more to be done."

He is frustrated that the recession, which came late to Glasgow, is putting a brake on development and forcing businesses to concentrate on survival rather than long-term improvement. He admits that the agency's prime target group among the city's 50,000 unemployed has to be the top 30 per cent – "the walking wounded who have their work ethic intact".

He fears that the bottom 30 per cent – "second or third generation unemployed, living in a world of drugs and crime" – are beyond reach of an organisation like the GDA.

About these people Mr Robin Boyle, formerly at Strathclyde university's centre of planning, wrote recently: "Glasgow's poor are simply no longer part of the city. In economic, political or social terms, their alienation from urban life is almost complete.

"Years of isolation bred hopelessness; the reponse of the very poorest has been to withdraw into a personal world of survival, far removed from city centre renewal, waterfront housing and new shopping centres."

Mrs McFadden, who recently replaced the powerful Mr Pat Lally as Labour leader on the council, voices a similar anxiety. "I've always said Glasgow's *Miles Better* only referred to the centre of the city. It was a sick joke for people living in damp houses in Easterhouse."

Like many leading people in the city she expresses a longing for a revival of manufacturing in Glasgow. The great expansion of jobs in services, she says, is "very worrying because these jobs do not pay as well as those in manufacturing, tend to involve women rather than men and, especially in tourism, are vulnerable to recession".

Where does Glasgow go now? The city council and the GDA have formed a strong partnership which will continue the strategy of developing service industries such as tourism, and attracting more companies to set up branch or head offices in the city, and, it is hoped, factories.

Mr Gulliver says a long term policy of upgrading skills and performance throughout the businesses of the city is essential.

Michael Kelly, who as Lord Provost launched the Glasgow's *Miles Better* campaign and now runs a public relations agency while also advising other British cities on how to stage recovery, believes a big new initiative is needed to succeed the garden festival and the city of culture ventures. "I've suggested we celebrate the ending of World War two, possibly in conjunction with other European cities".

He rejects the idea that this approach to reviving a city is purely cosmetic and does not produce lasting effects. "Why do women use cosmetics? Because they are effective."

But the calm Mrs McFadden says Glasgow no longer needs spectacular new events to follow up the garden festival and the city of culture year. "We don't need a big event every so often any more. A lot of the groundwork of recovery has been done. What Glasgow needs now is constant marketing to proclaim our advantages and attract both visitors and companies."

KEY FACTS

LOCAL AUTHORITY:		Glasgow District Council
CHIEF EXECUTIVE:		Thomas T Monaghan
CHIEF PLANNING OFFICER:		James H Rae
AREA:		20,267 hectares
POPULATION 1992:		695,630
POPULATION 2001:		631,205
AGE STRUCTURE	0-19	176,783
	20-54	326,451
	55+	127,971

EMPLOYMENT BY SECTOR

Primary	5,702
Manufacturing	57,443
Construction	24,558
Services	262,182
TOTAL	349,885

MAJOR EMPLOYERS
Barr & Stroud Ltd; Howden Group PLC; Weir Group PLC Eng.; Kvaerner Govan Ltd; Yarrow Shipbuilders; BAe Sema Ltd; National Savings Group; Scottish Amicable; Scottish Mutual (Insurance); Alexander Stenhouse Ltd (Insurance brokers)

AVERAGE HOUSE PRICES	3-bed Semi-detached	£64,000
	4-bed detached	£97,000
PRIME RENTS	Office	£20.00 per sq ft
	Industrial	£4.25 per sq ft
	Retail	£125.00 per sq ft (zone A)
AIRPORTS	Glasgow (20 minutes from City)	
RAIL TRAVEL	Glasgow/London 5hrs 5 minutes	
	17 trains per day	
ROAD TRAVEL	London	6 hours 13 minutes
	Manchester	3 hours 19 minutes
	Aberdeen	2 hours 30 minutes
	Southampton	6 hours 59 minutes
NEAREST CHANNEL TUNNEL FREIGHT TERMINAL (projected):	Mossend, Lanarkshire	
GRANT STATUS:	Development area	
UNIVERSITIES:	University of Glasgow, University of Strathclyde	
POLYTECHNICS:	Glasgow Polytechnic	
SCIENCE PARK:	West of Scotland Science Park	

Information researched by National Starpoint Limited, producers of social and demographic information for relocation purposes. Tel 0785 43235

Glasgow puts a brave face on recession, says **James Buxton**

The importance of image

RECESSION has cast a pall of uncertainty over Glasgow, and yet in strictly relative terms the city is suffering less from the downturn than many others.

The recession came late to Glasgow, as it did to the rest of Scotland. Unemployment in Glasgow was still falling just over a year ago when it was rising fast in southern Britain, and at that time the city's commercial property market was only beginning to experience a downturn. Even now unemployment is only 1.5 per cent higher than in October 1990.

The good news, however, is purely relative because overall unemployment in Glasgow is high at 15.5 per cent, with male unemployment at 21.6 per cent and the rate of joblessness in some areas running at 30 per cent or more. Much of Glasgow is still doing reasonably well, but the improvement of recent years has not brought unemployment down to a level most people would consider acceptable.

The continuing recession is having a depressing effect on morale. Mr Stuart Gulliver, chief executive of the Glasgow Development Agency, says the task of medium term development is made more difficult by the stodgy economic climate. "You go along to a company to offer assistance with improving the skills of its workforce and you find employees being made redundant almost while you are speaking to them."

But the emphasis on Glasgow's long term recovery and the initiatives being taken to accomplish it sometimes distract attention from the fact that the city is a fundamentally vibrant place. Although its population is now less than 700,000 and slowly dropping, it is the centre of services for an area of more than 2.5m people, and Scotland's largest consumer market.

Being a centre of service industries may not have the prestige that Glasgow once enjoyed as a big manufacturing centre, but manufacturing in the city has been in decline since the second world war. Even 10 years ago some 100,000 people were employed in manufacturing in Glasgow while now the number is 55,000.

Yet some of the survivors of that industrial holocaust are doing well. There are now only two shipyards on the Clyde but both have virtually full order books. Kvaerner Govan, the Norwegian-owned merchant ship building yard, last year won orders worth £300m for four chemical tankers and with other ships under construction has a full order book until 1995.

Across the Clyde, Yarrow, part of GEC, earlier his year won a £400m contract to build three frigates for the Ministry of Defence. At Cathcart, Weir Group, which had to be rescued from impending collapse in 1981, is virtually unaffected by recession as one of the world's leading pump manufacturers and is making rising and substantial profits.

However other engineering companies are doing less well: Barr & Stroud, an offshoot of Pilkington which makes optical equipment for defence, has halved its workforce to under 1,000 in the past two years. The Rolls-Royce components plant at Hillington has shed 750 jobs in the past year.

Glasgow is also a centre of food and drink processing, with a large biscuit-making plant of United Biscuits and several whisky operations, including important parts of United Distillers and the head-

Much of Glasgow is doing well, but unemployment is still unacceptably high

quarters of Whyte & Mackay, as well as textile makers including Coats Viyella.

Both the GDA and the district council are anxious to attract new manufacturers to Glasgow. However, they accept that manufacturing companies are primarily attracted to the nearby new towns of East Kilbride and Cumbernauld rather than Glasgow.

Nevertheless, a joint effort is being made by the GDA and the district council to create factories on appealing sites with private sector help and lure medium-sized manufacturing operations to the city.

The prime objective, however, is on expanding the service industries of the city. Glasgow firms provide professional services such as legal work, accountancy, advertising and public relations.

Glasgow is a second tier financial centre. Its branch of the International Stock Exchange has the only remaining trading floor in Britain and Glasgow is the headquarters of Allied Provincial, a chain of provincial stockbrokers which operate all over Britain. The fund management company Murray Johnstone has more than £3.4bn under management. The Clydesdale Bank which has its headquarters in the city has been reviving steadily since 1987 when Midland Bank sold it to National Australia Bank. However it recently shed 700 jobs at its head office, bringing staff numbers there down to 2,400, as part of an efficiency programme to take full advantage of automation.

Last year, Glasgow became home to one of the FT 100 companies when Scottish Power, formerly the South of Scotland Electricity Board, was privatised. It too has been shedding staff as efficiencies are made.

Another significant development on the corporate front was the recent buyout by its management of George Outram, publishers of *The Herald*, the west of Scotland's leading daily newspaper, and the Glasgow Evening Times. Outram was sold for £74m by Lonrho and is now called Caledonian Newspaper Publishing.

Glasgow is the centre of the Scottish media industry and the home of Scottish Television, a quoted company, which pulled off a coup by successfully bidding only £2,000 to retain its franchise.

For several years the Scottish Development Agency and its successor, the GDA, have worked with the private sector to improve office accommodation in the centre of the city and attract companies needing a Scottish headquarters, or even fully fledged head offices. Some 18 organisations established offices in Glasgow between 1986 and 1991, promising a total of 7,300 jobs.

These included BP Exploration's headquarters for northern Europe (600 jobs moving from southeast England), a British Airways tele-sales office (creating 350 posts) and two offices of the Department of Social Security (creating a total of 900 jobs).

However, 2,000 of the 7,300 promised jobs were in the Census Office for the processing of the 1991 census of Britain; the luring of this office to Glasgow was a considerable coup for the city, but the jobs are naturally temporary, and numbers employed are now falling.

Worse, BP Exploration said this month that it was moving its Glasgow operation to Aberdeen over the next year or so, at a cost to Glasgow of 350 jobs. The process of attracting incoming companies to Glasgow is now virtually stalled by the recession and many of the jobs that have been created are for women, so the policy has little direct effect on the high male unemployment.

Glasgow has shown its customary energy in promoting itself as a tourist destination based largely on the attractions of its cultural resources and events. In 1990, 3m visitors came to Glasgow, the year it was European City of Culture, a venture which created a positive net economic return to the regional economy of between £10m and £14m.

Progress is thus being made but the high level of male unemployment is shorthand for misery and frustration on the periphery of the city which the enriching of the centre can only partially cure.

Professor Alan MacGregor of Glasgow University has a sober conclusion on Glasgow's economic progress in the past few years. "There has not been a recovery in Glasgow's position, but the city has created a positive image that is a base for recovery," he says. "What you can say is that we're in better shape than we were before to move forward if the economy improves."

New offices spring up to house the service sector economy

Buildings for commerce

FOR several years the private and public sectors have collaborated in improving and expanding the office stock in the heart of Glasgow, as part of the policy of making it a centre of service activities and attracting new businesses.

The Glasgow office property market began taking off from 1987 as developers became aware of the city's new potential. A surge of activity began as developers rebuilt or heavily refurbished the office buildings in the business core of the city around St Vincent Street.

Part of the pressure came from local businesses such as solicitors, accountants, stockbrokers and advertising agencies who were expanding rapidly and found that their existing offices were both too small and inappropriate for the computer age.

The Scottish Development Agency, which in Glasgow was the forerunner of the Glasgow Development Agency, had been trying for several years to persuade developers to look at new sites in Glasgow. It had identified areas of derelict or semi-derelict property adjacent to the core of the city which it envisaged the city's office area expanding, and thus attracting company headquarters or large branch offices to Glasgow.

As Mr Ted Webster, senior partner of the chartered surveyors Richard Ellis, used to point out in the late 1980s, improving the accommodation of indigenous Glasgow businesses was essential to the process of attracting incomers. "You've got to have the local business community well-housed before you can get many people to come in from outside," he said.

From the late 1980s many buildings around St Vincent Street and West George Street

Pressure came from local firms with offices which were too small for the computer age

were refurbished or rebuilt, often behind their original facades if these were subject to preservation orders. Office rents in the central business area, which comprises about 8m sq ft of office space between George Square and Charing Cross (the total rises to 12m sq ft including the Park area immediately to the west), increased from about £8 per square foot for space in prime locations in 1987 to reach a sustained average peak of about £18 in 1989.

According to Mr David Rooney of the chartered surveyors Lambert Smith Hampton, the market reached its zenith in that year, with some deals being done at £30. It was not until the end of 1990 that the recession began to be felt seriously in the Glasgow property market.

Now the market presents a more depressing picture. New development starts have come to an end and Richard Ellis calculates that about 650,000 sq ft of office space is available for rent, with a further 224,000 sq ft due for completion before the end of the year.

Whereas the annual take-up of quality office space was running at 500,000 sq ft in the late 1980s, it fell to 350,000 sq ft in 1991 and only 165,000 sq ft had been let in the first five months of this year.

Mr Rooney says that Glasgow is experiencing the tail-end of the 1980s boom as the last projects initiated in that period come to completion, and "no one has the appetite to start new construction on the gap sites". Much of the overhang consists of second hand office accommodation, 10 to 30 years old, which has been vacated by businesses trading up to more modern premises.

This accommodation will be difficult to shift for the time being, he believes, as rents are being driven down by aggressive negotiators.

Yet people in the property industry are not as gloomy as one might expect. Mr Webster says: "It is not a sign of ill-health to have empty buildings. If there wasn't any, people looking for space would go away again." Glasgow, he points out, traditionally has a stable office property market with demand growing steadily because of the size of the city's hinterland and its large potential workforce, but not outpacing supply, which grows because of the relative ease with which new developments can get underway.

The largest single empty building, Tay House, which covers 160,000 sq ft with a wing built on a bridge across the M8 motorway, would be suitable for any company seeking a large amount of high quality space for immediate occupation.

The decision of BP Exploration announced this month to leave its headquarters in St Vincent Street in the next year or so will free more high quality office space, although some space has already been taken by Abbey National.

Mr Ken Campbell of Knight Frank & Rutley says there is now "a brake on the market which I see running for the next 12 months. But we are not in free fall: there is no resemblance here to London."

The most significant new development in the Glasgow's office property scene is the Broomielaw project. For years the business district has been gradually expanding south from St Vincent Street towards the river Clyde. The Broomielaw project leapfrogged straight to the riverfront; it involves creating nearly 1m square feet of quality office space in an area which in 1987 consisted of semi-derelict warehouses and shops.

James Buxton

Education is one of the biggest employers, says **Stewart Dalby**

University challenge

FURTHER education occupies an important place in Glasgow. Currently there are two universities and eight colleges which between them have about 60,000 students. Some 12,000 people are directly employed by the colleges making further education the single largest employer after government departments including health organisations.

The universities include the University of Glasgow, the second most ancient university in Scotland and one of the oldest and largest in the UK. It was founded in 1451. Then there is the University of Strathclyde, founded in the 1960s.

At the other end of the scale Glasgow Polytechnic should in the next few months, barring last minute hurdles, unite with Queen's College in the city and become Queen's University with around 11,000 students. Similarly, Paisley College, located in Paisley to the west of Glasgow, should soon be designated Paisley University. This will give Glasgow four universities.

Whether the universities are ancient or newborn, all of them have been encouraged in the past decade by the government to be more businesslike in the way they run themselves and more entrepreneurial in finding new sources of funding.

This can mean forging closer links with industry and the marketing of research. It can also mean business schools selling market research and information on contracts and contract law.

The University of Glasgow

For a decade, colleges have been urged to be more businesslike in their management and to generate more of their own funds

claims to be the largest science-based university in the UK outside London and also has one of the largest medical schools.It also has a veterinary medicine department. Its most oversubscribed undergraduate course is film and theatre studies.

With its size and range – there are 21,000 students altogether – Glasgow University is well placed to develop closer research and technology crossovers with industry.

Mr Mike Brown, the press and information officer and Mr Richard Blackmore, the intellectual property manager, outline some of the projects the university has been involved in. The veterinary department has developed Virol, a vaccine for cattle. The department of naval architecture is heavily involved in research for platform safety on oil rigs in the North Sea.

The Glasgow University Archaeological Research Division (GUARD) of the Department of Archaeology has been associated in research for upgrading the A47 road to motorway standard.

The university's department of cardiology is involved with Siemens-Elema of Stockholm to market software for the Computer Assisted Reporting of Electrocardiograms (CARE). This has been called the software for heartbeats programme.

In all, Mr Brown estimates that the university derives £14.5m from sales of research, technology and other forms of liaison with industry. This is distinct from funding by the government Research Council. Taken together with other ancillary activities such as the Visitor's centre and the museum and art gallery, the sales of research and other services makes up more than 10 per cent of total revenue.

Sir William Kerr Fraser, the principal and vice chancellor, says: "We attach enormous importance to our links with industry and our research in science and medicine. Given what Glasgow is trying to do in developing new industries, we have an important role to play. We supply new graduates in a wide range of disciplines. Our staff are available for consultancy and there are areas such as health care, where our research can be important."

The University of Strathclyde is similarly-business minded. The university started life as the Royal College of Science and Technology in 1796. It currently has 9,000 students in four departments and 3,000 staff.

Dr Hugh Thomson, the university's director of research and development, says: "We are highly collaborative with industry. When I last did the calculation I estimated that between 14 and 15 per cent per cent of our income came from research contracts or technological crossover."

The crossover extends across a wide range of subjects. The faculty of engineering worked with industry in developing aids for the disabled and in the replacements of joints for sufferers from rheumatoid arthritis and similar complaints.

The Faculty of Science is active in waste biotechnology. One research project funded by Rhône-Poulenc aims to establish a bank of microbial organisms which interact in the absence of oxygen. After testing to establish the effects of environmental variables such as temperature and moisture content the idea is that these microbial associations will then be used to target specific waste streams, breaking down the waste and controlling pollution.

Dr Thomson gives an example of where pure research has come to have a valuable commercial application: the department of pharmacy within the department of science developed a muscle relaxant drug called atracurium. This is marketed by the Wellcome corporation in the US.

In the university's accounts for 1991-92 royalty income from atracurium was £1.2m. "Atracurium started life as a pretty academic exercise," Dr Thomson says.

With the change in the status of Glasgow Polytechnic and other places of learning, the city will soon have four universities

Another example of entrepreneurial spirit is to be found in the Strathclyde Business School, which has just completed a new £11m centre. It is expected eventually to become self-financing through the sale of contracts and other services.

Surprisingly, given the assumed success of science parks in England like those at Cambridge and Warwick, the West of Scotland Science Park, in which both Glasgow University and Strathclyde have an interest, is not deemed to work too well – at least by Dr Thomson.

"It works perfectly well as a business park. But there has not been real crossover with the universities. I don't know why exactly. I suppose if it were not 20 minutes drive away things would be easier. But we are trying to develop small incubator units here where companies involved in technology can set up and avail themselves of research and expertise," Dr Thomson says.

Dr Thomson says he would not advise people to read too much into what he says about the science park. " There is a lot of collaboration with industry. Glasgow has become a dynamic place in recent years. There is a lot of buzz, a lot of self confidence. The universities are very much part of the revival."

Land and subsidies bring in the investors

Attractions galore

GLASGOW has for the past 10 years been vigorously trying to attract new businesses. The city on the Clyde urgently needed to replace some of the thousands of jobs lost in shipbuilding and engineering.

The city has concentrated on building itself up as a service centre based on retailing, tourism, financial services, scientific research and providing companies with regional headquarters. It would also like to encourage manufacturing but has not done as well as a number of other places in Scotland.

Professor Alan MacGregor, of the social and economic research department at Glasgow university, says: "People still think of Glasgow as an industrial city but it has not been an industrial city for a long time now. Manufacturing occupies only 16 per cent of the workforce. Apart from anything else there is not the land available for manufacturing.

"Manufacturers nowadays generally want greenfield sites. There have been lots of manufacturing companies drawn to places close to Glasgow like East Kilbride. But in the city itself, like other cities, there is not the room."

In setting out its stall to attract service companies, Glasgow has a formidable array of attractions. It is a development area so that companies qualify for Regional Selective Assistance (RSA) from the Scottish Office Industry Department.

Through Strathclyde region, Glasgow receives assistance from the European Social Fund directed at people through training programmes, and from the European Regional Development Fund which is aimed at infrastructural improvements. There is also EC money available for former coal and steel producing areas.

This all amounts to a considerable subsidy to Glasgow, some of which filters through to individual companies. The Economic Policy Unit of the City Council estimates that Regional Selective Assistance alone can account for 30 per cent of fixed project costs.

On top of this, much of the work of the Scottish Development Agency, before its winding up in 1991, was devoted to Glasgow. It offered a range of practical and financial assistance and was able to build, rent and sell offices and factories at low cost.

The SDA has now become Scottish Enterprise, which operates through a network of local enterprise companies of which Glasgow's is the Glasgow Development Agency. The GDA can still act as an enabling body in the property sector.

As an example the GDA recently bought 35 acres of the land on which the Glasgow garden festival was held in 1988 at a cost of £5m. The GDA will look for a private developer for the land when the property climate improves. By putting land into a project as a form of equity the GDA can make the scheme more economical for the developer.

There has been heavy investment in Glasgow's infrastructure. Mr Stephen Ince, the economic development officer at the City Council, says: "We estimate that £2.4bn is likely to be invested from 1991 and over the next three or four years, mostly in offices, shops, transportation and communications."

Much of the office stock in the city centre has been renewed in the past few years, and new offices built. The council's economic policy unit claims that Glasgow's office rents are typically only 35 per cent of those in central London and Paris, and 50 per cent of the rate in Madrid, Milan and Frankfurt.

Wages are similarly low, with non-manual male and female wage rates between only 70 per cent and 74 per cent of the greater London rate. The potential savings of operating in Glasgow increase because of the high degree of labour market stability in the city.

The council estimates that annual staff turnover in service industries in Glasgow is less than 7 per cent, compared with 20 per cent in London and 15 per cent in the south-east of England.

As for high quality staff there are two universities – Glasgow and Strathclyde – with 8,000 students graduating from these and the polytechnics and further education colleges each year.

Communications is another important factor influencing relocation decisions. Here too Glasgow, scores highly. It is relatively free of congestion for a big city. Glasgow is the only major city with a motorway running through its centre.

The suburban rail network, underground and bus links form one of the most comprehensive in Britain. There are inter-city rail connections to all major UK cities. Glasgow airport is less than 15 minutes from the city centre. It provides flights to 80 domestic and international destinations including more than 190 flights a week to London.

Finally the city prides itself on its quality of life. Like many towns and cities in Britain, Glasgow can claim that employees can live in pleasant surroundings only a few minutes from work, with no problems parking on arrival, and get swiftly out into the countryside, compared with the hour or so it takes to get to work London. Glasgow also sees itself as a cosmopolitan city with a vibrant cultural life, including concerts, ballet, opera and restaurants.

With all this, Glasgow has been successful in attracting new service companies ranging from regional headquarters of financial services groups to government departments to software systems and engineering.

In spite of this month's decision by BP Exploration to pull out of Glasgow over the next year or so, the city has attracted 17 concerns involving just under 7,000 net new jobs between 1986 and 1991 *(see table)*.

Unemployment at 14.5 per cent amounts to just under 60,000 jobs. Unemployment is traditionally high in Glasgow but these new jobs in services have made a significant dent in what the overall total might be especially when taken together with new jobs in tourism.

The table shows that Glasgow is on the way to becoming a second tier financial services centre.

It has won a fair share of government department relocations and is laying the basis for a research and development network which can lock into the universities.

Stewart Dalby

Major Inward Investments: 1986-91

Company Organisation	Status	Activity	No of Jobs	Previous Location
Direct Line Insurance	Regional HQ	Telephone sales & insurance	200	South East
Clydesdale Bank Access Unit	Credit Card HQ	Accounts administration	100	South East
Barclays Broker Services	HQ	Share settlement & stockbroking	250	Start-up
United Distillers	Export HQ	International export centre	200	Various/ centralisation
British Telecom	Research Centre	Software systems & Engineering	200	Start-up
Allied Provincial Services	HQ	Group processing & stockbroking	210	Various/ centralisation
Royal Insurance	Regional HQ	Insurance	155	Various/ centralisation
BP Exploration	N.European HQ	Oil Exploration & production	600	London
Passport Office	Regional HQ	Issuing of passports	70	London
DSS Transitional Payments Office	HQ	Housing benefit administration	400	London
DSS Remote Payments unit	HQ	Payments Processing	500	London
Census Office	HQ	1991 census processing	2,000	North West
Ministry of Defence	HQ	Pensions and procurement admin	1,400	South East
Criminal Injuries Compensation Bd	HQ	Claims administration	109	London
TSB Homeloans	HQ	Mortgage processing	500	London/ various
British Airways	Regional HQ	Tele-sales centre	350	Expansion/ start-up
Student Loans Co.	HQ	Loan admin. centre	250	Start-up
Britannia Life	HQ	Insurance	100	Expansion
TOTAL JOBS (PROJECTED)			7,344	

TOURISM

A lot to offer

TOURISM has been one of the key elements in the renaissance of Glasgow.

In 1982 there were 700,000 visitors to Glasgow, many of them day trippers. By 1990 the number had risen to 3m. Of these, 1.5m were staying visitors with an average stop of two nights. Around 500,000 were from abroad.

It has been estimated that the total tourist "spend" in that year was £217m accounting for 10 per cent of tourist spending in Scotland as a whole. In terms of foreign visitors, the amount spent was £109m or half the total. This accounted for almost 20 per cent of the Scottish average. Glasgow became the third most popular short break destination in the UK after London and Edinburgh.

According to the Greater Glasgow Tourist Board 22,000 people in Glasgow were employed in tourism in 1990 out of a labour force of 350,000. This figure does not include the self-employed and represents 6.3 per cent of the workforce.

How has this transformation come about? Admittedly, 1990 was exceptional, marking Glasgow's designation as the EC City of Culture and last year, visitors again dropped back a little.

But the City of Culture year was only a stage in a concerted drive by the Labour-dominated city council to diversify the city's economy.

First, it would spruce up the city centre. Second it would develop retailing at all levels. Third it would win inward investors from financial services, government departments and high technology companies. Finally, there would be an attempt to exploit its rich cultural heritage to attract visitors.

Glasgow claims to have the largest cultural infrastructure in the UK outside London and has some 200 cultural and performing arts organisations.

The authorities' attempts to increase tourism received a lift from set-piece events such as the Glasgow Garden Festival in 1988 visited by more than 4m people in five months.

Then there was the City of Culture year in 1990. Some 3,700 events of different sizes were staged throughout the year. A report on the year's impact on Glasgow, by Professor John Myerscough, an economist specialising in the economic impact of culture, concluded that: "The initiative generated a positive net economic return to the regional economy of £10.3m to £14.1m. Extra employment arising from Glasgow 1990 was estimated at 5,3505,580 person years." The year of culture also attracted about 600,000 extra visitors. But although culture spearheaded the campaign to develop tourism it was not the whole story.

The much brighter image of Glasgow had attracted the general leisure tourist before 1990. The shopping/hotel/restaurant infrastructure was well developed by 1990. The speciality shopping in Prince's Square and the Italian centre are both appealing to an international audience.

Americans started to add Glasgow to London, Stratford and Edinburgh on their list of cultural destinations. International visitor numbers were further boosted when, under the government's open skies policy for Scotland, Glasgow airport won the right to operate transatlantic flights, ending the monopoly held by Prestwick. There are now daily flights between Glasgow and destinations in the US and Canada.

Glasgow is increasingly seen as a starting place for trips to the Highlands, to the Robert Burns country in Ayrshire and Dumfriesshire, to Loch Lomond and the golf courses of St Andrews and Gleneagles.

The Greater Glasgow Tourist Board claims that "Greater Glasgow is the only destination in Western Europe that can boast 13,000 beds, a purpose-built conference and exhibition centre and international airport all within 15 minutes of each other".

The Scottish Exhibition and Conference Centre can house concerts for 10,000 and has seen performers as diverse as Pavarotti and Paul Simon in recent years. But its main function is to house trade shows and conferences in its five halls.

Business visitors are another important element of Glasgow's tourism drive. There are a number of four star business hotels like the Holiday Inn and Forte Crest. Next April the city will get its first 5-star hotel with the opening of the Glasgow Hilton.

The 300-room hotel costing over £36m will include a grand ballroom for up to 1,000 people, a specialist conference centre and 11 boardrooms.

Mr Ronald Roy, the chief executive of the Greater Glasgow Tourist Board and Convention Bureau, reckons the importance of business tourism should not be underestimated. He says, "rounded up I estimate that about half the £300m-odd Glasgow earns from tourism comes from business visitors, particularly conferences".

Stewart Dalby

SLUM TRANSFORMATION

Posh Gorbals

GLASGOW, like most other big British cities, made big efforts *after the Second World War* to disperse its population from the centre to the suburbs.

One result was a fall in population – from 1.12m in 1939 to only 700,000 today. Another was the so-called doughnut effect: Glasgow has a rich centre and a poor periphery. The metaphor does not work completely since not all council tenants were moved to the peripheral estates, where until the 1970s most housing was built by the public sector for rent.

But most recent inner city residential developments have been privately developed. In the Merchant City, attractive but derelict warehouses and factories close to the City Chambers (city hall) were handed over to private developers by the city council and made into residential units which are either unsuitable for families or beyond the pocket of working class people. In 1980s terminology, it was "yuppified".

Now, however, an ambitious pilot scheme, backed by the Glasgow Development Agency, the Glasgow District Council and Scottish Homes, the housing enabling body, aims to develop a low cost housing community close to the city centre.

The project, called the Crown Street regeneration project, is to take place in part of the notorious Gorbals, which is a microcosm of Glasgow's changing fortunes over the past 100 years.

The Gorbals, on the south bank of the River Clyde only five minutes from the city centre, was once a respectable middle class area. Then from the 1860s the once fashionable four storey tenements in the area were occupied by Irish immigrants and Highlanders driven to the big city by famine and clearances. So overcrowded were the buildings that a system known as "ticketing" was introduced, which stipulated the numbers who could live in a four storey building. By the 1880s one seventh of Glasgow's population lived in ticketed buildings.

With industrialisation people continued to pour in. By the early 1900s, the still elegant stone facades of Hutchesontown in the centre of the Gorbals concealed a hidden Glasgow. Families ate, slept, gave birth and died in one room.

The cheap housing attracted further immigrants from Ireland and Eastern Europe and from Pakistan. These added their own cultures to the distinctive street life of the area. But the area became best known for the violence of the so-called razor gangs. By the 1950s the Gorbals had the worst slums north of Naples.

The post-war planners in Glasgow decided to start from scratch. The first area in the city to be tackled was Hutchesontown/Gorbals. The Hutchesontown Redevelopment Plan was finally approved in 1957. The area was to be a green city of tower blocks.

It was not a success. The communities felt cut off and alienated. Within a short time the tower blocks – built using the "tracoba" method of system building imported from Algeria – suffered from dampness and condensation. Lifts broke down. The dampness proved incurable. By 1982 the last residents were moved out. Five years later Hutcheson E – the most notorious of the blocks – was demolished.

There are 40 acres standing empty in Hutchesontown owned by the city council. It is here that the Crown Street regeneration project will take place. The plan is to build 1,000 four storey tenements. The first two floors will be three and four bedroom maisonettes with gardens back and front. The top two floors will form single level one and two bedroom apartments.

Twenty five per cent of the dwellings will be for rent with the rest for owner occupation. The entire project will cost £80m. Scottish Homes has put up £9m as seed money (in England it would be defined as city grant.) Because the council owns the land, and there is a high level of subsidy, the housing that is not for rent will be cheap. Maisonettes will start at £50,000 and flats at £32,000.

Mr Mike Galloway, the director of the project which is only at the stage of examining design tenders, says, "what we are attempting here is revolutionary. We are going for urban regeneration without gentrification. We are going to build a genuine lower middle class community here. There will be shops and community centres. We even have plans for a budget hotel. People from different walks of life will want to live here because it is so close to the city centre."

The peripheral estates which have tens of thousands of residents are a different problem. The estates, consisting of a mixture of three to four storey blocks of flats and tower blocks, have become almost as infamous as the Gorbals. They are characterised by high unemployment (30 per cent in some cases), by alienation and loss of community spirit, by vandalism, drugs and other symptoms of deprivation.

It is unfair to say, however, that because the estates are out of sight they are out of mind. Professor Alan MacGregor of Glasgow University sits on the partnership committee for the Castlemilk estate, to the south of the city. This is one of four partnership areas in Scotland designated by the secretary of state for Scotland – joint ventures between central government and local community organisations.

Professor MacGregor says, "Over 10 years hundreds of millions of pounds will be channeled into the estates in all kinds of areas, housing, training, employment and training. One of the things we are doing is to improve links between Castlemilk and East Kilbride where there are good employment prospects after the recession."

In other areas organisations such as the Glasgow Development Agency, the Glasgow District Council and the Confederation of British Industry in Scotland are involved in initiatives on the estates. Professor MacGregor says, "it is early days for the initiatives. But it is not true to say that the city council is spending money on tarting up the centre and on the arts that it should be spending on the estates. It is doing both."

Stewart Dalby

COMMODITIES AND AGRICULTURE

Copper climbs to 7½-month high

By Kenneth Gooding, Mining Correspondent

COPPER SUPPLY fears helped to lift prices of the metal yesterday. On the London Metal Exchange copper's price reached its highest level in seven and a half months while on the New York Commodity Exchange (Comex) futures contracts touched lifetime highs.

Traders suggested the market was particularly concerned that labour contract negotiations at Asarco, the big US copper group which produces about 450,000 tonnes a year, were making slow progress. There were also labour tensions in the Polish copper industry and bad weather had affected Chile's output.

However, analysts said copper's fundamental situation was bullish. Mr William Adams at Rudolf Wolff said it now seemed likely that, instead of the 50,000 tonnes surplus expected at the beginning of this year, there would be a 100,000 tonnes copper deficit in 1992. Mr Robin Bhar at Carr Kitcat & Aitken has lifted his copper price forecasts for this year from $1 a lb to $1.05 and for 1993 from $1.05 to $1.15 a lb.

On Comex the July copper futures contract touched a lifetime high of $1.05.90 a lb at one point yesterday morning, up 11 cents from Tuesday's closing level. At the LME the price of copper for immediate delivery closed last night at £1,245.50 a tonne, up £9.50, while three-month metal ended at £1,263.75, up £6.50 a tonne.

Study group sees market remaining in broad balance

By Frances Williams in Geneva

THE WORLD copper market is likely to remain in broad balance this year as a modest rise in consumption is matched by increased supplies, according to industry experts attending this week's inaugural meeting of the International Copper Study Group in Geneva.

The group, set up last January, brings together government and industry representatives from 18 producing and consuming countries representing over 80 per cent of world copper trade. Zambia, the third biggest copper exporter, has stated its intention to join the group and Japan, the biggest importer, says it will join if the terms of reference can be amended. This would increase the proportion of copper trade covered by the group to 78 per cent.

Russia, once one of the top three copper producers, has also expressed an interest in joining. Mr Alexei Shevtsov, a senior Russian official, said Moscow was ready to provide data on production and consumption and was interested in information on technology, environment and investment.

The group is designed to improve copper market information and undertake regular assessments of the market situation and outlook. However, this first meeting, which ends tomorrow, attended by over 100 delegates from about 30 countries, has been dominated by procedural and administrative issues. These include the location of the group's headquarters, appointment of a secretary-general and the initial work programme and budget. Lisbon, Santiago and Montreal have all offered to host the organisation.

Commentaries on the market situation presented to the meeting indicate that while there are already signs of a pick-up in demand for copper in the US market, this may be offset by stagnant consumption in the recession-hit Japanese and European markets. An unpublished Canadian government assessment suggests that continued overall growth of world copper output could put some downward pressure on prices this year, assuming no major supply disruptions.

"While copper consumption is expected to experience significant growth beginning in 1993, prices to 1995 are likely to be adversely affected by further increases in copper mine capacity," the assessment says. However, it predicts that prices will subsequently strengthen with strong demand and a slowdown in the growth of world copper supply.

The Canadian view appears to be generally shared by copper consumers, though some producer countries are more optimistic. Mr Ernesto Tironi, Chile's representative at this week's meeting, said rising demand coupled with production problems in Peru, Zaire, Zambia and the former eastern bloc countries could lead to demand outstripping supply by end-1992 or early 1993. Chile is by far the world's biggest exporter.

Uganda in $54m cobalt development

By Kenneth Gooding

UGANDA SIGNED a development agreement for a $54m project yesterday that should see that country become a substantial cobalt producer, contributing about 5 per cent of western world output by 1995.

Barclays Metals of the UK, part of the Barclays Bank group, is marketing agent for the project, and BRGM, the state-owned French mining group, is the technical agent. Each will have a 27.5 per cent stake with the Ugandan government owning the rest.

The aim is to produce for at least 15 years an annual 1,000 tonnes of cobalt – an essential metal in some of the superalloys used by the aerospace industry and for some motor industry products – from waste dumps at the old Kilembe copper mine on the edge of the Queen Elizabeth National Park in south-west Uganda.

The partners plan to built a pilot plant as part of a detailed $4m feasibility study over the next 12 months. This will provide the basis for a full scale, $50m, bioleaching, solvent extraction and electrowinning plant at Kasese.

Copper production stopped there in 1972 since when various methods to recover cobalt have been looked at and found to be either too expensive or too polluting. However, BRGM (Bureau de Recherches Géologiques et Minières) has developed a method where *thiobacillus ferro-oxidans*, a naturally occuring bacteria that is being used by some copper, gold and uranium miners to liberate metal from ore, can be employed.

The partners claim that bioleaching is not only the least costly way of extracting Uganda's cobalt, it is also the most environmentally-friendly method. They suggest cobalt can produced profitably at its long-term historic average price of $10 to $12 a lb. Cobalt is at present about $25 a lb on the European free market, having doubled in price recently following production and political problems in Zaire and Zambia which between them account for about 70 per cent of western production of the metal.

Ghana polishes up gold coast image

Julian Ozanne on massive new investment in an underdeveloped, high potential area

GHANA'S METEORIC gold boom continues unabated as a result of stable economic policies and massive new investment in one of the least developed high potential gold belts in the world.

According to the Minerals Commission production surged last year to 844,674 troy ounces – a 56 per cent increase over 1990 production. The government is predicting that the 1m-ounce mark, the highest level Ghana has ever produced in its history, will be reached this year as new projects come on stream and operational difficulties in the major expansion activities are ironed out.

Foreign exchange earnings from gold are forecast at US$350m in 1992, making gold, for the first time in more than two decades, Ghana's number one foreign exchange earner.

The gold mining boom is directly attributable to the government's overhaul since 1983 of the restrictive investment laws and incentives in the mining sector, its commitment to a radical economic adjustment programme and its flexible approach to foreign investors. Since 1983 at least $500m has been invested in the sector.

Last year's huge production increase was clearest evidence to date of the successes of government policies. The giant of Ghana's gold industry Ashanti Goldfields Corporation, owned 55 per cent by government and 45 per cent by Lonrho, increased its production to 569,452 ounces, up 42 per cent from 1990, as a result of the opening of its new Sansu oxide plant and the continuing rehabilitation and development of its underground mines.

Two other projects also became fully operational last year – the $100m Billiton Bogusu project, majority owned by the Shell subsidiary Billiton International Metals (Netherlands), produced 61,678 ounces in 1991 and Teberebie Goldfields, majority owned by Pioneer Incorporated of Boston, produced 79,111 ounces. These projects are expected to produce at least 100,000 ounces a year each when initial operational difficulties have been overcome.

The future looks promising and the government is estimating annual production of 2m ounces by 1996. Several new projects, with ultimate estimated capital investments of up to $800m over five years are scheduled to take off in the coming months to increase production levels still further. The first, and most exciting, development is the privatisation of the two underground mines at Prestea and Tarkwa, owned by the State Gold Mining Corporation. Both mines, which last year produced a combined 48,000 ounces, have extremely high potential but have been severely constrained by poor management and inadequate new investment. Because of dilapidated equipment and outmoded mining methods they have production costs of about $350 an ounce.

Mining operations in both areas have so far concentrated on narrow, relatively high grade, veins. Proposals for buying the mines have been submitted by, among others, two South African mining houses, Rand Mines and Gold Fields of South Africa, and by Billiton International Minerals. Both mines have considerable potential for expanding underground production and developing new surface mining operations of oxide and sulphide ores.

One mining expert believes that if investment of $150m-$200m is put into each concession both Prestea and Tarkwa have the potential within three or four years to produce in excess of 200,000 ounces a year each. The Tarkwa mine has geology very similar to the vast gold deposits in South Africa's Witwatersrand area and the South African bids are tipped as the front runners. A government decision on the privatisation proposals is expected very soon.

The second major expansion of reserves and production is being undertaken by Ashanti Goldfields Corporation, which has set a production target of 1m ounces a year by 1996. A recent evaluation of reserves by Minproc Engineers is believed to have suggested reserve levels of at least 20m tonnes with grades in the range of six to eight grams per tonne. A new financing package of about $250m for the next four years is being put together by the company at the moment. To reach the 1m-ounce level major capital investment is required in continued expansion and mechanisation of underground operations, development of additional open-pit oxide and sulphide reserves and installation of new refractory ore treatment facilities with capacity of at least 3m tonnes a year. Mechanisation and new investment will also help AGC to reduce its costs of production, currently at about $260 to $270 an ounce at the Obuasi mine, to the $200 an ounce achieved by Teberebie, Bogusu and AGC's own new Sansu oxide operation.

The government has also said that it is preparing to divest itself of 20 per cent of the equity in AGC by December, reducing its share holding to 35 per cent, and is considering a joint placement on the London and Accra stock exchanges.

Ghana-Australian Goldfields, majority owned by Golden Shamrock Mines of Australia, is scheduled to start production in September with reserves estimated at about 15.9m tonnes and an average grade of about 2.1 grammes a tonne. Estimated annual production is 100,000 ounces with a total capital costs for the project of about $60m.

In addition decisions will be taken within the next 12 months on two more medium-sized, low-grade open-pit mining projects.

Cliff Mining (UK and Zimbabwe) has completed a feasibility study for a significant discovery at Ayanfuri, in Western Region, with estimated reserves of 7m tonnes and an average grade of 2 grams a tonne. The company has undertaken a rights issue to raise $15m on the London Stock Exchange for a total estimated capital investment of $25-$30m, which is expected to produce 40,000-50,000 ounces a year.

Abosso Goldfields, majority owned by Ranger Explorations of Australia, is seeking finance for a drilling programme to confirm and expand reserves. So far 3m tonnes of resource have been identified with an average grade of 2 grams a tonne.

In addition to these new projects both Teberebie and Bogusu are planning expansion programmes to realise production of 125,000 and 140,000 ounces a year respectively.

Since Ghana, known as the Gold Coast in colonial times, started gold production at least 60m ounces have been mined. Considerable expansion is under way as well as efforts to reduce production costs among all producers to $200 an ounce. But mining experts point out that most recent mine development and exploration has occurred in established areas. Many other areas with known prospects and favourable geology have yet to be explored systematically. Such exploration, encouraged by further liberalisation of investment laws, could produce results to make Ghana a major world producer for decades to come.

Weak brew for Sri Lankan tea sector reforms

Mervyn de Silva on the government's partial privatisation of the plantations sector

SRI LANKA has been forced to undertake its most ambitious privatisation exercise in an attempt to revive its tea industry.

However, only the management of the estates is being taken over by the private sector. Overall control, including hiring and firing, will still be in the hands of political appointees, a fact that is causing some concern to aid donors such as the World Bank.

In an attempt to sharpen up the management of the estates Sri Lanka – the world's largest tea exporter – is turning back to the expertise of the private companies that made Ceylon tea famous from the times a young English planter called James Taylor planted the first tea bush in 1876.

For the past 20 years, since they were nationalised by the left-leaning government of Mrs Sirima Bandaranaike, the ownership and management of the island's largest tea, rubber and coconut estates has been vested in the State Plantations Corporation and the Peoples Estates Development Board.

Traders say bureaucratic and centralised control over the state-owned plantations has led to waste, corruption and mismanagement. Continuing losses and the prospect of a drop in production this year because of a drought has forced the government's hand.

Now the administration of President R. Premadasa has broken up the holdings of the two giant, state-owned tea plantation corporations and the ownership of 452 estates has been transferred to 22 regional plantation enterprises.

The patent need to modernise the tea industry and improve its efficiency has overcome reluctance government reluctance to confront problems arising from the island's colonial history, Sinhala/Tamil racial tensions and troubled relations with neighbouring India. Plantation labour is 90 per cent Indian Tamil, descendants of workers brought from south India by British planters in the late nineteenth century.

"The point is that we have come to the end of the road," says Mr Rupa Karunatilleke, plantation industries minister. "What we need most is professional managers not government-appointed bureaucrats who worship financial regulations and administrative rules". Sri Lanka remains the world's largest tea exporter with 225m kg sold abroad last year. While there was a 3 per cent drop in exports in 1991, far more worrying was the 15 per cent drop in export income. The turmoil in the former Soviet Union and the financial isolation of Iraq, both major buyers, explains this loss. "But Iran and Pakistan have promised to buy more," says Mr A.R. Munsoor, the trade minister, who recently visited Iran and had talks in Colombo last month with a top-level Pakistani trade delegation.

"We are fully alive to the importance of meeting the challenge of new technologies and consumer tastes," says the minister. "The volume of CTC (cut, tear and curl) teas traded in the world market exceeds the volume of orthodox teas." At present only 3 per cent of Sri Lankan production is CTC, the type favoured in the UK.

The boards of management of the regional plantation enterprises will be selected by the president on Mr Karunatilleke's advice. "Competent persons with experience in plantation agriculture as well as in the tea trade will be selected," says a ministry official.

None the less, they will be political appointees, and the temptation to "give jobs for the boys" will remain strong, says Mr C.V. Gooneratne, an opposition MP. The government admits that "hiring and firing" will be entrusted to the regional plantation enterprises rather than to the private sector managing companies.

The World Bank pointed out recently that Sri Lanka's estates were generating large losses and were important contributors to the losses of the government-owned banks. "While we understand the political sensitivity of the issue and wish the government success in the use of private management contracts, we must note that the international experience with this approach has not been successful where ownership has continued in the state sector," it warned.

Nevertheless, the bank and the International Monetary Fund have recently released $75m, the second tranche of a $450m Extended Structural Adjustment Facility.

WORLD COMMODITIES PRICES

MARKET REPORT

An extremely active and extended afternoon fixing session on the London bullion market saw heavy selling before GOLD was fixed at $342.30 a troy ounce, down $1.70 from the morning fix. Brokers reported large Middle East sell orders as the fix began, with dealers in New York reporting bids ranging up to 200,000 and 350,000 ounces. Dealers said there was no sign of producers in the market and no initial indications of official selling. London's robusta COFFEE prices closed steady and New York arabica futures moved above lifetime lows by midday as the markets awaited developments at the slow-moving ICO talks in London. London September COCOA touched a new 16½-year low of £511 a tonne before recovering some of the loss by the close. Dealers said that the Ivory Coast and Ghana, under pressure to pay off debts, had large amounts to sell in the near future. "Until people think they have sold enough to satisfy the IMF, the market is going to remain depressed," said one trader. Three-month ZINC extended an early short covering move on the LME, breaking above $1,240 a tonne and almost reaching $1,250.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$19.40-9.50z	+0.30
Brent Blend (dated)	$21.50-1.60	+0.25
Brent Blend (Aug)	$21.50-1.65	+.275
W.T.I (1 pm est)	$22.80-2.90z	+0.50
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$239-241	+2
Gas Oil	$192-194	+4.5
Heavy Fuel Oil	$85-87	
Naphtha	$205-209	+3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$342.65	-2
Silver (per troy oz)♣	403.0c	-2
Platinum (per troy oz)	$365.50	-0.4
Palladium (per troy oz)	$90.95	-0.4
Copper (US Producer)	108.75c	+0.11
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	16.89r	+0.06
Tin (New York)	313.5c	-1
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	108.20p	-2.46*
Sheep (live weight)†♦	79.19p	-2.68*
Pigs (live weight)†	83.78p	-2.40*
London daily sugar (raw)	$267.4t	+0.4
London daily sugar (white)	$296.0z	+1
Tate and Lyle export price	£282.5	
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£148.0	
Wheat (US Dark Northern)	Unq	
Rubber (Aug)♥	51.25p	-0.5
Rubber (Sep)♥	51.25p	-0.5
Rubber (KL RSS No 1 Jul)	221.0r	
Coconut oil (Philippines)§	$557.5w	+6
Palm Oil (Malaysian)§	$400.0y	
Copra (Philippines)§	$360.0y	
Soyabeans (US)	£143.5	+0.5
Cotton "A" index	64.45c	
Wooltops (64s Super)	358p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Jun/Jul y-July w-Jul/Aug z-Aug. †Meat Commission average fatstock prices. * change from a week ago ♥London physical. §CIF Rotterdam. ♣Bullion market close. m-Malaysian cents/kg. ♦Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	245.00	244.00	246.40 243.00
Oct	218.00	221.00	220.60
Dec	212.00	212.00	208.00
White	**Close**	**Previous**	**High/Low**
Aug	290.50	290.00	290.50 288.50
Oct	269.00	270.00	269.50 267.20
Dec	268.00	268.90	267.00 266.00
Mar	271.80	272.30	271.80 270.50

Turnover: Raw 63 (210) lots of 50 tonnes. White 2314 (1614)
Paris- White (FFr per tonne): Aug 1538.22 Oct 1429.00

CRUDE OIL – IPE ($/barrel)

	Close	Previous	High/Low
Aug	21.57	21.29	21.61 21.46
Sep	21.47	21.21	21.50 21.36
Oct	21.38	21.10	21.38 21.27
Nov	21.26	21.01	21.23 21.15
Dec	21.15	20.94	21.19 21.07
Feb	20.82	20.64	20.77 20.75
IPE Index	21.27	20.95	

Turnover 23166 (16000)

GAS OIL – IPE ($/tonne)

	Close	Previous	High/Low
Jul	193.50	190.25	193.75 190.00
Aug	195.50	192.00	195.50 194.00
Sep	197.00	194.25	197.25 195.50
Oct	198.50	195.75	198.50 196.75
Nov	201.00	198.75	201.25 200.00
Dec	202.25	200.25	202.50 201.75
Jan			201.00 200.50

Turnover 12693 (10313) lots of 100 tonnes

WOOL

In the closing week of the Australian sales a relatively large offering of 172,000 bales is being auctioned at Sydney, Melbourne and Fremantle. The easier tendency of recent weeks continued on Monday and Tuesday, with a high proportion being passed in up to 33 per cent in Sydney. However, prices improved on Wednesday at all three centres, particularly for fine merino fleece of good style. Japan has been buying strongly, and Chinese interest in the market is thought to have been an important factor. The AWC market indicator after falling to 538, rose three cents a kg to 542 compared with 561 a week ago.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Jul	498	506	502 493
Sep	516	528	518 511
Dec	544	553	546 541
Mar	572	583	575 571
May	590	602	593 590
Jul	608	620	613 608
Sep	627	638	630 628
Dec	654	667	658 658
Mar	685	698	685 682
May	702	702	

Turnover: 3814 (3288) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 23 688.51 (682.35) 10 day average for Jun 24 674.65 (674.67)

COFFEE – London FOX ($/tonne)

	Close	Previous	High/Low
Jul	689	684	693 676
Sep	708	704	713 695
Nov	722	720	732 711
Jan	739	741	751 734
Mar	760	760	769 752
May	773	780	789 773
Jul	798	803	805 795

Turnover:3855 (3393) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 22: Comp. daily 48.57 (47.28) 15 day average 48.49 (48.63)

POTATOES – London FOX (£/tonne)

	Close	Previous	High/Low
Apr	91.5	91.0	91.8 91.0

Turnover 36 (5) lots of 20 tonnes.

SOYAMEAL – London FOX (£/tonne)

	Close	Previous	High/Low
Aug	122.50	121.50	122.50

Turnover 100 (18) lots of 20 tonnes.

FREIGHT – London FOX ($10/index point)

	Close	Previous	High/Low
Jun	1120		1126 1120
Jul	1021	1015	1022 1008
Oct	1085	1090	1085 1080
Jan	1211	1210	1212 1200
Apr	1241	1240	1241
BFI	1127	1138	1127

Turnover 185 (43)

GRAINS – London FOX (£/tonne)

Wheat	Close	Previous	High/Low
Jul	113.80	113.70	113.85 113.70
Jan	117.20	117.10	117.30 117.20
Mar	120.50	120.30	120.50 120.15
May	123.25	123.15	123.25 123.15
Barley	**Close**	**Previous**	**High/Low**
Sep	107.70	107.65	

Turnover: Wheat 142 (134), Barley 0 (45). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	123.5	122.0	
Jul	113.5		113.0

Turnover:1 (3) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 25,498 lots
Cash	1242.5-43.5	1232-3		1241.5-43		
3 months	1262.5-63	1253-3.5	1270/1266	1257-57.5	1269-69	184,788 lots
Copper, Grade A (£ per tonne)						Total daily turnover 29,688 lots
Cash	1245-46	1235.5-36.5	1250	1250-51		
3 months	1263.5-64	1257-57.5	1271/1260	1269.5-70.5	1261.5-62	107,511 lots
Lead (£ per tonne)						Total daily turnover 2,222 lots
Cash	323-24	320-21		321-24		
3 months	305-5.5	302-2.5	305/302.5	304-4.5	304-05	17,351 lots
Nickel ($ per tonne)						Total daily turnover 2,316 lots
Cash	7145-55	7095-105	7135	7115-20		
3 months	7225-30	7175-78	7225/7175	7200-205	7210-7215	23,302 lots
Tin ($ per tonne)						Total daily turnover 1,975 lots
Cash	6740-45	6735-40		6730-40		
3 months	6785-90	6785-95	6790/6780	6740-45	6780-85	10,063 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 17,723 lots
Cash	1222-24	1203-05		1207-08		
3 months	1245-46	1210-11	1247/1214	1231-32	1240-47	32,973 lots

LME Closing £/$ rate: SPOT: 1.8778 3 months: 1.8604 6 months: 1.8373 9 months: 1.8094

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	342.50-342.80	
Opening	344.00-344.40	
Morning fix	344.00	184.302
Afternoon fix	342.30	182.171
Day's high	344.20-344.50	
Day's low	342.00-342.30	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.46	6 months	3.27
2 months	3.44	12 months	3.49
3 months	3.38		

Silver fix	p/troy oz	US cts equiv
Spot	216.35	403.60
3 months	221.75	407.70
6 months	227.15	411.25
12 months	238.15	422.45

GOLD COINS	$ price	£ equivalent
Krugerrand	342.25-345.25	182.35-185.75
Maple leaf	352.75-355.75	187.75-188.25
New Sovereign	84.00-86.00	44.75-45.25

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1200	48	72	3	8
1250	5	42	18	27
1300	1	20	61	55
Copper (Grade A)	**Calls**		**Puts**	
2300	43	140	3	14
2350	3	40	35	39
2400	3	14	61	72
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
650	66	84	8	13
700	33	51	25	30
750	15	30	57	66
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
500	26	58	4	14
525	16	42	25	23
550	8	29	43	35
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
2100	77	85	20	40
2150	44	61	41	64
2200	20	38	94	

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low
Aug	22.89	22.59	22.95 22.78
Sep	22.77	22.52	22.84 22.65
Oct	22.65	22.42	22.72 22.53
Nov	22.55	22.33	22.60 22.43
Dec	22.41	22.23	22.48 22.30
Jan	22.24	22.09	22.30 22.17
Feb	22.06	21.92	22.10 21.98
Mar	21.90	21.78	21.91 21.80
Apr	21.75	21.64	21.78 21.67
May	21.60	21.52	21.60 21.52

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low
Jul	6365	6211	6370 6250
Aug	6381	6247	6400 6290
Sep	6440	6305	6450 6340
Oct	6554	6445	6565 6475
Nov	6634	6530	6640 6575
Dec	6690	6602	6710 6640
Jan	6701	6613	6705 6660
Feb	6550	6485	6560 6510
Mar	6255	6183	6270 6230
Apr	6090	6033	6070 6010

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Jul	781	800	798 765
Sep	831	841	842 815
Dec	885	896	895 865
Mar	930	943	940 925
May	960	972	980 960
Jul	1000	1000	980
Sep	1020	1030	
Dec	1050	1071	1065 1064
Mar	1100	1111	
May	1132		

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Jul	56.70	55.30	56.75 55.80
Sep	58.85	56.90	58.95 56.75
Dec	61.65	61.50	61.80 60.65
Mar	64.40	64.50	64.50 63.40
May	65.45	66.30	66.30 65.60
Jul	70.75	70.75	70.85 70.00
Sep	73.00	72.50	73.00 73.00

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Jul	64.50	62.42	65.00 63.00
Oct	64.50	63.51	64.34 63.55
Dec	62.70	62.50	63.00 62.20
Mar	64.15	63.50	64.00 63.50
May	64.40	64.50	64.20 64.00
Jul	65.26	64.80	65.20 64.60
Oct	64.45	63.60	64.00 63.80
Dec	64.05	63.75	64.00 64.00

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	125.55	125.85	125.85 124.85
Sep	117.60	113.60	119.00 117.00
Nov	114.25	113.85	115.50 113.50
Jan	112.70	113.50	114.10 112.95
Mar	112.50	113.70	114.25 112.95
May	112.50	113.50	113.50 112.50
Jul	112.50	113.50	113.50 112.50
Sep	112.50	113.50	113.50 112.50
Nov	112.50	113.50	113.50 112.50

INDICES

REUTERS (Base: September 18 1931 = 100)

Jun.24	Jun.23	mnth ago	yr ago
1588.4	1552.8	1596.1	1778.5

DOW JONES (Base: Dec. 31 1974 = 100)

	Jun.23	Jun.22	mnth ago	yr ago
Spot	118.60	118.61	117.08	129.30
Futures	118.67	119.78	117.12	126.90

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
Jun	342.8	344.5	344.2 342.7
Jul	343.3	344.9	0 0
Aug	344.3	346.0	345.5 343.5
Oct	346.1	347.5	347.2 345.6
Dec	347.9	349.1	349.4 347.0
Feb	349.6	350.9	350.9 349.7
Apr	351.4	352.7	353.5 351.4
Jun	353.1	354.4	353.5 353.5
Aug	354.8	356.1	0 0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
Jul	368.4	364.3	365.0 361.6
Oct	368.4	365.1	369.0 365.0
Jan	368.4	365.1	369.0 365.0
Apr	370.5	366.3	0 0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
Jun	403.3	405.0	0 0
Jul	403.4	405.0	405.5 401.0
Sep	405.1	406.6	407.5 405.5
Dec	407.6	409.3	410.0 407.5
Jan	408.5	410.2	0 0
Mar	410.9	411.7	411.5 409.5
May	412.5	414.7	415.5 413.0
Jul	415.4	416.8	416.5 416.0
Sep	417.6	419.6	0 0
Dec	421.8	423.1	422.5 422.0
Jan	423.7	427.2	0 0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Jun	106.65	104.75	105.65 105.75
Jul	105.85	104.62	106.00 105.80
Aug	107.00	106.10	0 0
Sep	107.40	105.45	107.60 105.90
Oct	107.25	105.25	0 0
Nov	107.05	105.30	0 0
Dec	106.70	105.75	106.80 106.30
Jan	106.45	105.35	0 0
Feb	106.20	105.10	0 0
Mar	106.05	104.85	106.90 106.90
May	105.65	104.55	105.90 104.80

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Jul	10.88	10.96	11.05 10.80
Oct	9.72	9.77	9.82 9.61
Mar	9.47	9.58	9.59 9.44
May	9.40	9.50	9.47 9.38
Jul	9.35	9.41	9.40 9.25
Oct	9.25	9.25	9.25 9.20

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Jul	606/2	603/4	606/2 597/2
Aug	603/0	605/4	606/2 600/2
Sep	603/4	611/0	611/2 604/4
Nov	612/6	616/4	613/0 606/4
Jan	621/4	625/4	627/0 619/4
Mar	631/0	634/4	634/0 630/0
May	637/0	640/4	640/0 631/4
Jul	639/4	640/4	640/0 634/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	20.68	20.71	20.91 20.54
Aug	20.81	20.90	21.05 20.71
Sep	21.01	21.11	21.22 20.81
Oct	21.16	21.25	21.41 21.06
Dec	21.40	21.55	21.72 21.35
Jan	21.68	21.68	21.85 21.50
Mar	21.90	21.92	22.00 21.75
May	22.00	22.15	0

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Jul	180.7	181.2	181.9 180.4
Aug	181.5	181.8	182.5 181.0
Sep	182.5	183.0	183.3 182.1
Oct	183.5	184.1	186.2 183.0
Dec	185.5	186.0	200.1 185.6
Jan	199.5	200.0	200.7 199.5
Mar	201.0	201.7	202.0 201.0
May	203.0	203.3	203.5 202.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Jul	249/6	251/2	252/2 249/2
Sep	254/4	258/2	258/2 254/0
Dec	260/2	260/4	260/6 256/2
Mar	268/2	267/2	270/4 265/6
May	273/6	274/0	276/0 273/0
Jul	276/0	276/0	276/6 275/4
Sep	276/4	276/4	276/0 268/4
Dec	259/4	260/4	261/0 259/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Jul	344/2	331/4	351/6 342/4
Sep	353/2	350/0	356/2 352/2
Dec	361/2	362/4	364/4 351/0
Mar	361/0	363/4	364/2 357/2
May	349/0	350/4	351/0 347/0
Jul	331/0	330/4	330/0 327/0
Sep	335/0	328/0	0 0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Jun	70.475	69.950	70.850 70.450
Aug	70.025	71.275	70.650 70.300
Oct	69.875	70.175	70.250 69.950
Dec	70.525	70.600	70.350
Feb	69.825	70.150	70.250 69.650
Jun	69.025	69.075	

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low
Jun	46.700	46.975	46.800 46.625
Jul	43.800	45.575	44.100 43.850
Aug	42.025	40.175	42.025 41.650
Oct	39.525	40.025	40.400 39.425
Dec	41.450	41.500	41.550 41.325
Feb	42.450	42.450	42.650 42.300
Apr	41.000	40.650	40.975 40.650
Jun	47.650	47.650	47.650 47.550

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low
Jul	31.800	32.075	32.150 31.200
Aug	29.325	29.600	30.100 29.200
Feb	41.400	41.800	41.800 40.800
Mar	40.600	41.600	41.600 40.600
May	40.600	41.600	41.600 40.600
Jul	40.600	41.800	41.600 40.600

LONDON STOCK EXCHANGE

Volume increases as shares fall again

By Terry Byland, UK Stock Market Editor

A TROUBLED session on the UK stock market took a turn for the worse yesterday afternoon when the latest ruling from the US Supreme Court brought heavy falls in tobacco shares in London and New York. At the day's low, the FT-SE Index was 33 points down but the market rallied as losses in the tobacco leaders were halved after analysts took a closer look at the US legal ruling. The final reading put the FT-SE Index at 2,532.6, down 28 points on the day.

At least two large two-way trading programmes helped boost the day's equity turnover to 582.1m shares from the 369.2m recorded in the previous session. The split between buying and selling orders underlined current trends in the London stock market; fund managers are selling stocks considered to have over-performed in the euphoria which followed the UK general election but also buying stocks likely to hold steady until a genuine recovery in the economy appears.

Dealers reported substantial but highly selective business in equities. BAT Industries traded very heavily, and selling pressure was seen in the oil stocks until Wall Street cheered London at the close by opening the new session with a gain of 16 Dow points in UK hours.

But ICI fell sharply on turnover of fewer than 1m shares, while Lloyds Bank, several pence firmer at the close, traded fewer than 500,000.

The market was held back by the list of new issues known to be overhanging fund managers. Lasmo edged higher after disclosing details of its plans to sell the US assets acquired with Ultramar; the prospective pricing was at least no worse than the London market had feared. Shares in Wellcome, which will give details today of its planned public offering of stock, weakened but traders pointed out that barely 500,000 shares changed hands.

The London market's other worry is still the international front, where concern regarding Wall Street lifted somewhat after an unexpected fall of 2.4 per cent in US durable goods orders last month prompted suggestions that the Federal Reserve might cut interest rates again in order to stimulate economic activity. But deeper concerns regarding the outlook for the Japanese equity market as well as the economy continued to unsettle analysts in London.

On the home front, the continued slide in the stock market brought the FT-SE 2,500 line into hazard. Some analysts fear that, if this level is broached, then the market could be challenged all the way down to 2,420. However, the more sanguine analysts hold to the view that London is well supported on valuation ground and will stabilise - if only Wall Street and Tokyo hold firm.

Retail or customer business in equities has remained relatively light during the most recent shakeout in share prices. The daily total has topped the important £1bn mark only once in the past seven trading sessions. The market is still nearly 100 Footsie points above its pre-election level and the absence of heavy selling indicates confidence ahead of the end of the second quarter, now only a week away.

Account Dealing Dates			
*First Dealings:			
Jun 15	Jun 29	Jul 13	
Option Declarations:			
June 25	Jul 9	Jul 23	
Last Dealings:			
Jun 26	Jul 10	Jul 24	
Account Day:			
Jul 6	Jul 20	Aug 3	

*New-time dealings may take place from 8.30 am two business days earlier.

Clouds gather over BAe

A SPATE of negative stories drove British Aerospace down sharply. The fall started early as the market focused on a company presentation at Tuesday's aerospace and defence conference at Charterhouse Tilney, where the company had talked of problems in its civil aviation order book.

The early doubts were quickly followed by unconfirmed speculation that BAe would issue a profits warning within the next few days.

Sentiment was further weakened by reports that UBS Phillips & Drew was about to issue a sell note detailing large provisions likely to be required because of problems in the regional aircraft division.

Mr Brian Newman at Henderson Crosthwaite is already predicting that BAe will have to make provisions of around £1bn for rationalisation and the regional aircraft subsidiary. He also believes the company will be forced to cut the dividend by 50 per cent, but he adds: "The defence side continues to trade strongly."

The shares reacted by falling 20 but were helped off the bottom by bargain hunters and eventually settled 17 down at 250p after 5.8m traded.

BP drilling fears

British Petroleum shares, weakened on Tuesday by a series of profits downgrades by leading broking houses, were given further rough handling yesterday following reports that drilling at the company's latest operations in Colombia had been suspended for environmental reasons.

Cusiana is widely regarded as one of BP's biggest exploration triumphs in recent years. At the close of business, BP was trading a net 6 lower at 268p, with specialists said to have been very nervous about the stock finishing below a previous long-standing closing support level of 240p. Turnover was a good 5.7m shares.

Tobacco upset

Tobacco issues finished above the day's lows but still well down after the US Supreme Court ruled against them on liability from personal injury lawsuits by smokers.

The court ruled that, in spite of the health warning printed on cigarette packets since 1966, the manufacturers are not protected against legal action. This could have important implications for the industry, with a possible 50 cases waiting to be heard in the US, seeking millions of dollars in damages.

Rothmans "B" ended 19 weaker at 1091p, while BAT Industries, with a larger exposure to the US tobacco market, lost 24 at 733p, after touching 705p. Turnover in BAT was a hefty 9.5m shares.

Mr Simon Willis, analyst at County NatWest, said it is important to remember that the tobacco industry pushed for the case to be heard by the Supreme Court, believing it would be protected by the post-1966 health warning. Although this has proved wrong, he pointed out that each case will have to be decided individually, and as yet no big award has ever been made against the tobacco companies.

Wellcome weak

Speculation surrounding Wellcome's share offer, with some details due to be announced today, helped to weaken the shares, which dropped 18 to 918p.

Although the drugs group is only due to indicate the size of the offer, talk in the market focused on the price, with most talk putting the shares at between 800p to 850p. At the moment, Wellcome Trust holds 75 per cent of the group and is today expected to relinquish up to two-thirds of its holding.

A big agency cross in Granada saw 6.55m shares moved at 255p, while total turnover in the stock reached 17m with the price down 11 at 255p.

More holiday price war worries knocked 13 off Airtours at 253p and a further 2 from Owners Abroad at 73½p. Solid results from First Leisure sent the shares forward, although they receded in late trading to close a net 3 up at 308p. Rank Organisation was in demand, edging a penny ahead to 670p in chunky volume of 2.5m.

The latest news about the flotation of Lasmo's North American oil refining businesses triggered an initial flurry of selling which saw the shares down to 169p, but was quickly followed by covering of short positions taken out in the stock. The shares ran up to touch 177p but later slipped back to close 2 firmer on the day at 174p. Turnover was a hefty 5.3m shares.

Another downgrade in publishing group Pearson, this time said to be from Cazenove, further depressed the shares, which closed 23 lower at 380p.

A downgrade in RTZ left the shares 10 adrift at 584p. S.G. Warburg cut £30m from its profits forecast for this year to £355m and snipped its dividend forecast from 21p to 20.5p, blaming poor gold and copper prices.

Some exceptionally heavy business associated with programme trade activity was said to have been behind the more excessive moves in banking shares.

The UBS Phillips & Drew buy recommendation boosted Abbey National 3 to 277p, but worries about exposure to losses in India continued to unsettle Standard Chartered, 6 off at 425p. Merchant banks gave further ground, S.G. Warburg ending 18 cheaper at 512p and Kleinwort Benson 5 lower at 286p.

Reports of a broker profits downgrade left Redland 12 off at 486p. Dealers said some analysts had reduced their estimates to around £210m.

The second line construction stocks included several weak performers, notably CALA, down 8 at 64p, and Costain, off 3 at 48p.

Whitbread "A" fell 8 to 411p in spite of comment by chairman Mr Sam Whitbread that "we are beginning to see the first tentative signs that business may be looking up".

Bass, hit Tuesday by negative comments from Lehman Brothers, eased 3 to 595p, although Lehman's preferred companies, with more emphasis on the international spirits trade, fell even further. Guinness lost 11 to 558p and Allied-Lyons 8 to 641p.

Ratners slipped another ½ to 7½p on further good turnover of 2.8m shares.

The poor sentiment in British Aerospace spilled into Rolls-Royce, which declined 6 to 155p as turnover rose to 7.2m shares.

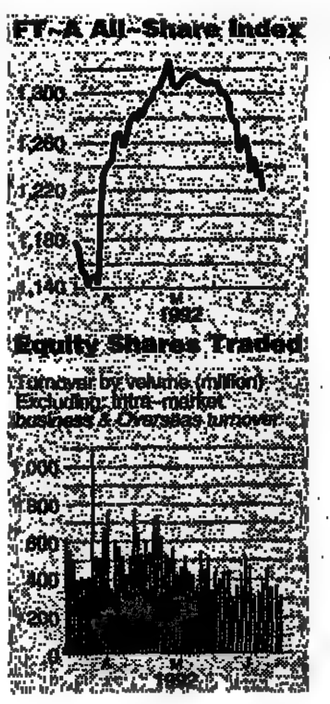
A profits downgrading knocked Vickers down 8 to 139p. US investment bank Lehman Brothers reduced its current year forecast by £11m to £20m to reflect continued difficulties at the company's Rolls-Royce Motor Cars subsidiary.

A profits warning by Healeys Group caused a slide in the shares of 22 to 55p.

MARKET REPORTERS: Christopher Price, Steve Thompson, Joel Kibazo, Colin Millham.

■ Other market statistics, Page 20

FT-A All-Share Index



FINANCIAL TIMES STOCK INDICES

	June 24	June 23	June 22	June 19	June 18	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	88.53	88.55	88.67	88.73	88.75	83.54	89.82 (29/5)	88.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.34	104.26	104.33	104.36	104.35	92.82	105.02 (2/6)	97.15 (2/1)	105.82 (2/6/92)	50.53 (3/1/75)
Ordinary Share	1979.9	1996.7	1998.4	2005.6	1988.4	1921.6	2149.7 (22/5)	1851.4 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	94.6	97.1	98.7	103.4	103.2	195.6	160.6 (10/1)	94.6 (24/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2532.6	2560.6	2550.3	2564.9	2562.7	2481.2	2737.6 (11/5)	2382.7 (3/4)	2737.6 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1178.66	1185.92	1186.61	1195.73	1188.54	1155.06	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	935.62 (19/1/91)
●Ord. Div. Yield	4.65	4.62	4.65	4.61	4.65	4.93				
●Earning Yld % (full)	6.83	6.77	6.83	6.77	6.82	8.57				
●P/E Ratio (Net)(*)	18.36	18.46	18.34	18.50	18.36	14.18				
SEAQ Bargains 5.00pm	21,189	21,079	21,824	22,417	22,049	25,107				
Equity Turnover (£m)†	-	806.1	949.5	864.7	1030.7	703.90				
Equity Bargains†	-	23,643	23,939	24,194	26,079	23,766				
Shares Traded (mil)†	-	328.1	369.6	369.8	453.8	325.5				

Ordinary Share Index, Hourly changes — Day's High 1998.4 — Day's Low 1977.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1997.6	1995.1	1990.3	1988.4	1989.4	1988.6	1983.4	1984.1	1978.2

FT-SE 100, Hourly changes — Day's High 2559.1 — Day's Low 2527.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2558.8	2553.3	2549.2	2545.1	2547.4	2548.0	2541.3	2540.5	2527.9

FT-SE Eurotrack 200, Hourly changes — Day's High 1185.69 — Day's Low 1178.65

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1183.06	1182.96	1183.30	1183.85	1183.31	1181.48	1180.80

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basis 1000 FT-SE 100 31/12/83, FT-SE Eurotrack 200 26/10/90. [illegible]

GILT EDGED ACTIVITY

Indices	June 23	June 22
Gilt Edged Bargains	93.3	92.6
5-Day average	87.8	88.1

*SE Activity 1974. †Excluding intra-market business and Overseas turnover.

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

EARLY selling by independent traders coupled with the early weakness in the fixed interest markets caused stock index futures to fall to a post-election low in a volatile session, writes Joel Kibazo.

The FT-SE futures contract for September delivery opened strongly at 2,593. This, however, proved to be the high of the day as independent traders holding long overnight positions began selling the contract, sending September into retreat.

The weakness in gilts, ahead of the gilts auction, also hurt sentiment, but its successful completion was among factors that caused a small rally in September. However, sellers emerged to send the contract to the day's low of 2,586 early in the afternoon, before the firm opening performance of Wall Street helped a bounce before the close. September ended at 2,582, down 9 on the previous session, but around 17 points above its estimated fair value premium to cash of about 35. Turnover reached 7,150 contracts.

Turnover in the traded options market was again high, reaching 46,038 lots, boosted by yesterday's expiry of the June stock options. The FT-SE option traded 12,153. Hanson was the busiest stock option with 5,768 contracts dealt, followed by British Steel on 3,610 lots transacted.

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wednesday June 24 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Tue Jun 23 Index No.	Mon Jun 22 Index No.	Fri Jun 19 Index No.	Year ago (approx.) Index No.
1 CAPITAL GOODS (178)	830.76	-1.2	6.92	5.34	18.76	16.21	840.87	840.13	850.83	905.67
2 Building Materials (22)	934.01	-1.6	5.95	6.00	22.42	22.03	948.89	940.28	962.99	1021.62
3 Contracting, Construction (28)	848.80	-1.1	3.95	7.12	57.78	24.60	858.58	850.60	863.61	1162.46
4 Electricals (9)	2523.11	-1.0	6.35	4.85	19.45	46.82	2534.35	2552.56	2554.80	2312.79
5 Electronics (29)	1973.95	-0.5	8.10	4.31	15.56	9.02	1983.32	1980.49	1995.80	1702.49
6 Engineering-Aerospace (6)	339.38	-3.2	10.74	7.68	11.78	11.27	350.73	349.48	348.58	418.46
7 Engineering-General (44)	523.74	-0.8	7.67	4.55	16.20	9.02	527.98	529.82	534.25	436.32
8 Metals and Metal Forming (8)	338.39	-0.3	0.76	10.54	-	3.54	339.44	338.77	335.25	434.95
9 Motors (14)	355.78	-1.0	7.46	6.61	17.63	10.94	359.30	356.90	360.02	327.00
10 Other Industrial Materials (19)	1754.13	-1.3	7.14	4.76	16.87	34.88	1779.48	1761.75	1784.10	1499.43
21 CONSUMER GROUP (189)	1427.44	-1.4	7.45	3.52	16.49	22.39	1448.36	1438.78	1441.57	1430.79
22 Brewers and Distillers (24)	2099.41	-1.4	7.91	3.53	15.25	29.32	2129.97	2127.57	2157.83	1753.76
25 Food Manufacturing (18)	1243.21	-0.2	8.69	4.25	14.23	23.82	1245.08	1243.61	1252.38	1143.41
26 Food Retailing (18)	2890.74	-1.7	8.39	3.16	15.60	44.61	2941.48	2934.72	2948.48	2577.89
27 Health and Household (24)	3852.28	-1.1	5.94	2.13	21.76	36.33	3894.31	3805.20	3883.59	3473.83
29 Hotels and Leisure (20)	1294.44	-1.1	6.16	5.23	21.15	23.50	1308.98	1300.44	1313.79	1226.74
30 Media (25)	1541.25	-1.7	6.27	3.40	19.75	25.88	1568.52	1573.53	1592.84	1572.67
31 Packaging, Paper & Printing (17)	779.83	-0.3	6.45	4.14	18.08	14.29	782.57	784.11	781.87	668.37
34 Stores (33)	1051.30	-0.4	7.19	3.52	18.34	15.85	1055.46	1063.81	1082.26	959.79
35 Textiles (10)	697.57	-0.8	6.63	4.46	19.00	12.44	703.01	704.79	703.77	525.38
40 OTHER GROUPS (116)	1256.45	-0.9	9.09	5.22	12.62	19.74	1267.89	1264.28	1274.89	1188.20
41 Business Services (17)	1408.08	-0.7	6.37	3.67	19.18	15.14	1418.42	1413.80	1422.64	1299.67
42 Chemicals (22)	1456.26	-0.8	7.26	5.01	16.89	31.75	1468.41	1462.49	1475.85	1364.67
43 Conglomerates (11)	1294.08	-1.8	10.66	5.87	12.15	23.62	1317.50	1299.16	1306.73	1382.79
44 Transport (14)	2575.57	-0.3	7.95	4.55	15.32	49.58	2584.14	2599.95	2568.71	2162.25
45 Electricity (16)	1314.81	+0.3	14.20	5.26	8.91	17.21	1311.14	1305.25	1315.44	1166.81
46 Telephone Networks (4)	1377.68	-1.5	6.31	4.79	11.59	17.34	1398.54	1398.84	1411.27	1398.33
47 Water (10)	2752.45	+0.5	16.10	6.25	6.87	54.93	2739.64	2719.82	2728.54	2258.06
48 Miscellaneous (22)	1977.52	-2.5	5.68	4.99	23.58	23.41	2027.74	2022.72	2049.89	1919.67
49 INDUSTRIAL GROUP (483)	1313.18	-1.0	8.12	4.42	15.35	20.72	1326.81	1321.47	1337.27	1281.34
51 Oil & Gas (17)	2011.83	-1.0	7.54	7.07	17.43	63.69	2032.53	2044.27	2085.92	2345.54
59 500 SHARE INDEX (500)	1380.05	-1.0	8.06	4.69	15.54	24.01	1394.30	1390.16	1407.97	1398.32
61 FINANCIAL GROUP (86)	734.90	-0.5	-	6.18	-	19.80	738.52	736.01	742.93	770.99
62 Banks (9)	933.94	-0.5	5.16	5.84	20.65	24.58	936.49	929.42	936.62	961.87
65 Insurance (Life) (6)	1496.92	-	-	5.95	-	44.26	1496.98	1484.29	1499.04	1440.33
66 Insurance (Composite) (7)	533.98	-1.2	-	6.52	-	13.46	540.26	542.60	549.07	609.80
67 Insurance (Brokers) (10)	859.62	-0.4	8.89	7.59	14.81	29.69	862.73	855.04	879.72	1107.55
68 Merchant Banks (7)	475.21	-1.8	-	4.54	-	11.25	484.09	492.41	493.13	414.13
69 Property (32)	442.38	-0.4	9.13	7.14	16.81	18.82	446.40	446.56	453.71	596.44
70 Other Financial (15)	246.41	-0.2	7.37	7.08	18.39	5.32	246.95	246.61	248.00	261.43
71 Investment Trusts (69)	1145.42	-0.4	-	3.92	-	18.05	1150.57	1149.18	1161.98	1149.62
99 ALL-SHARE INDEX (655)	1224.88	-0.9	-	4.89	-	22.64	1236.62	1232.87	1248.12	1170.72

	Index No.	Day's Change	Day's High(a)	Day's Low(b)	Jun 23	Jun 22	Jun 19	Jun 18	Jun 17	Year ago
FT-SE 100 SHARE INDEX†	2532.6	-28.0	2559.1	2527.6	2560.6	2550.3	2564.9	2562.7	2548.4	2437.3

FIXED INTEREST

PRICE INDICES	Wed Jun 24	Day's change %	Tue Jun 23	Accrued interest	xd adj. 1992 to date
British Government					
1 Up to 5 years (24)	122.34	-	122.34	1.89	6.18
2 5-15 years (24)	137.64	+0.02	137.61	2.12	6.89
3 Over 15 years (11)	148.12	+0.02	147.80	1.17	8.39
4 Irredeemables (6)	164.99	+0.02	164.89	1.95	6.35
5 All stocks (65)	135.27	+0.04	135.21	1.93	6.71
Index-Linked					
6 Up to 5 years (2)	173.51	-	173.50	0.88	1.83
7 Over 5 years (10)	152.66	+0.01	152.65	0.69	2.40
8 All stocks (12)	154.35	+0.01	154.33	0.71	2.31
9 Debs & Loans (63)	119.77	-0.18	119.99	2.48	5.55

AVERAGE GROSS REDEMPTION YIELDS		Wed Jun 24	Tue Jun 23	Year ago (approx.)
British Government				
1 Low	5 years	8.20	8.21	9.21
2 Coupons	15 years	8.98	8.99	10.18
3 (0%-7¾%)	20 years	8.98	8.99	10.08
4 Medium	5 years	9.25	9.20	10.56
5 Coupons	15 years	9.14	9.15	10.45
6 (8%-10¾%)	20 years	9.10	9.12	10.36
7 High	5 years	9.48	9.46	10.75
8 Coupons	15 years	9.32	9.34	10.61
9 (11%-)	20 years	9.18	9.21	10.48
10 Irredeemables		8.95	8.98	10.05
Index-Linked				
11 Inflation rate 5%	Up to 5 yrs	3.99	3.98	4.39
12 Inflation rate 5%	Over 5 yrs	4.35	4.34	4.55
13 Inflation rate 10%	Up to 5 yrs	3.24	3.23	3.46
14 Inflation rate 10%	Over 5 yrs	4.15	4.16	4.15
15 Debs & Loans	5 years	10.61	10.59	11.69
16	15 years	10.46	10.43	11.68
17	25 years	10.35	10.32	11.50

†Opening index 2558.8; 9 am 2553.3; 10 am 2549.2; 11 am 2545.1; Noon 2547.4; 1 pm 2548.0; 2 pm 2541.3; 3 pm 2540.5; 4.10 pm 2530.3(a) [illegible] Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2323.

NEW HIGHS AND LOWS FOR 1992

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Stock	Notes	Price £	+/-	1992 High	1992 Low	Yield Int.	Yield Red.
[illegible]							

BRITISH FUNDS - Cont.

Stock	Notes	Price £	+/-	1992 High	1992 Low	Yield Int.	Yield Red.
[illegible]							

OTHER FIXED INTEREST

Stock	Notes	Price £	+/-	1992 High	1992 Low	Yield Int.	Yield Red.
[illegible]							

AMERICANS

Notes	Price £	+ or -	1992 high	1992 low	Mkt Cap £m	Yld Gr's
Abbott Labs h	15 7/8xr	-3/8	18 1/4	14 5/8	[illegible]	2.2
Allegheny & W.	238p	-9	335p	228p	146.5	6.0
Amdahl	[illegible]	—	1155p	804p	[illegible]	0.7
Amer Cyanamid	29 1/4	+1/4	37	28 3/4	2,670	3.2
Amer Express	12 3/4xd	—	13 3/4	10 1/2	[illegible]	4.4
Amer T & T	22 5/8xd	+1/8	24 7/8	20 1/4	[illegible]	3.3
Ameritech	34 1/4	-1/2	[illegible]	32 1/2	14,895	5.8
BankAmerica	23 1/8xd	+1/8	27 1/8	19 1/16	7,374	3.2
Bankers NY	30xd	+3/8	37 1/4	28 3/8	2,472	5.3
Bell Atlantic	23 5/8	-1/4	26 1/4	23 1/4	10,170	6.2
BellSouth	[illegible]	[illegible]	29 1/8	25	12,684	6.0
Bethlehem Steel	[illegible]	+1/4	9 5/8	7	611.5	—
Bowater	[illegible]	+22	1579p	1078p	[illegible]	6.1
CPC h	24 1/2	+1/16	25 5/8	22 3/4	3,709	2.8
Cadiz Land Inc	241p	—	343p	168p	—	—
California Engy	635p	—	[illegible]	635p	115.6	—
Campbell Soup	18 1/2	+5/8	23 1/16	17 3/4	4,655	2.4
Chase Manhattan	14 1/4xd	+3/16	15 1/2	9 1/8	2,003	4.7
Chrysler	11 1/4xd	+1/16	11 1/2	6 1/4	3,288	3.0
Citicorp	10 1/2xd	—	11 1/4	5 1/8	3,767	—
Colgate-Palm	28 3/4xd	+7/16	29 7/16	25 1/4	4,257	2.2
Cont'l Bank	[illegible]	+16	1030p	499p	602.5	3.8
Dana	23 1/8xd	—	24 1/2	14 1/8	1,046	3.9
Data General	363p	+5	1004p	388p	186.4	—
Decora Inds	[illegible]	—	122p	68p	—	—
Dial	18 3/8xd	-1/16	24 1/8	18 3/8	767.7	3.3
Dun & Brad	29 3/8	+1/8	32 1/2	27 5/8	8,242	4.4
Eaton	42 1/4	+7/8	46 1/2	32 1/2	1,400	2.9
Echlin	9 3/8xd	—	11	7 3/8	544.5	4.0
FPL	18 5/8xd	—	20	18 1/8	3,157	7.4
Fluor	21 1/16xd	-1/16	27	21	1,717	1.1
Ford Motor	24 3/8	+1/8	26 3/4	15	11,097	2.3
Gen Elect	40 1/2xd	+1/16	46 1/4	40 1/16	35,575	2.9
General Host	429p	-10	555p	350p	—	4.8
Gillette	24 7/8xd	+5/8	29 7/8	23 1/2	6,455	1.8

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

FT MANAGED FUNDS SERVICE

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh				031-226 3271		
American ¥	5	252.3	252.3	268.5	+0.5	0.85
(Accum Units) ¥	5	297.0	297.0	315.8	+0.6	0.85
British	5	832.1	842.5	897.7	-2.8	6.00
(Accum Units)	5	1385.4	1422.9	1505.4	-5.7	6.00
European	5	337.9	337.9	359.9	-0.9	1.46
(Accum Units)	5	344.3	366.3	390.1	-1.0	1.46
Japan	5	90.95	90.95	96.22	-0.41	-
(Accum Units)	5	91.07	91.07	96.99	-0.45	-
New Pacific	5	204.2	204.7xd	218.0	+0.4	1.61
(Accum Units)	5	211.3	211.9	225.6	+0.4	1.61
Investment Tst June 12	5	136.8	139.0	147.1	-5.4	2.50
Mngd Equity	5	127.8	129.1	136.6	-0.3	2.85
Mngd Equity Acc	5	155.6	157.0	144.9	-0.4	2.85
Mngd Cash	0	96.90	96.90	96.90	----	9.58
(Accum Units)	0	121.7	121.7	121.7	----	9.58
Majority Sdg	1	101.05	101.05	102.06	+0.02	9.38
Majority Sdg Acc	1	112.06	112.06	113.18	+0.02	9.38
Stratford Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
International Jun 15	0	48.99	48.99	49.44	----	1.50
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham				0403 232323		
Equity	6	615.8	615.8	658.6	-0.7	3.08
North America	6	75.51	75.51	80.76	+0.25	0.54
Far East	6	84.71	84.71	90.60	----	0.54
W'wide Bond	6	46.94	46.94	49.94	-0.06	9.22
European	6	67.37	67.37	72.05	-0.05	1.35
Equity Income	6	67.33	67.33xd	72.01	+0.04	5.45
Portfolio	6	56.94	56.94	60.90	+0.09	1.77
UK Leading Cos	6	44.04	44.65	47.50	-	3.10
Broker Trusts						
Intl Equity	6	44.33	44.73	47.84	-0.22	2.85
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants				0800 525725		
American Growth	6	24.53	24.53	26.24	+0.15	0.73
Managed Assets	6	101.39	101.98	109.06	+0.01	3.28

	Bid Price	Offer Price	+ or -	Yield Gr's
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Property May 31	190.25	194.05	----	8.22
Equity May 31	922.95	935.25	----	3.76
* Available only to Local Authorities				
M & G Securities Ltd				
Charifund June 23	104.82		-0.2	10.29
(Accum Units)	631.99		-1.1	10.29
NAACIF Jun 23	41.50		-0.5	9.06
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † June 23	132.5	142.0	----	1.98
UK Small Co † June 23	331.1	381.6	----	3.44
Fixed Interest † June 23	110.4	116.2	----	8.61
US Small Co June 23	138.1	147.8	----	0.00
Managed June 23	110.0	117.7	----	3.64
Intl Bond June 23	121.0	127.7	----	10.05
Japan June 23	56.77	60.40	----	3.24
European June 23	90.41	97.32	----	1.72
Nth American June 23	103.8	111.8	----	1.41
Morgan Stanley International				
UK Exempt	1253.83	1303.60	----	-
Overseas Exempt	982.71	1012.85	----	-
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
American Exempt	49.76	51.76	+0.34	1.68
European Exempt	51.21	53.77	-0.33	2.54
Fixed Int Ex Jun 24	46.38	47.53xd	-0.02	9.07
Japan Exempt	34.15	35.52xd	-0.14	0.87
Managed Ex June 18	46.41	48.27	----	4.05
SE Asia Exempt	80.65	84.69	+0.65	2.00
Sm Cos Exmt Jun 24	36.52	38.13xd	-0.74	3.18
UK Eqty Ex Jun 24	43.47	46.17	-0.43	3.45
Phillips & Drew Fund Management Ltd				

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Bid Price	Offer Price	+ or -	Yield Gross
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood, Peterborough PE2 6FY 0733 470470				
Property Dist. (Gross)	135.7	142.8	----	-
Property Acc. (Gross)	258.6	272.2	----	-
Equity (Gross)	877.5	923.7	+2.1	-
Managed (Gross)	613.8	646.1	+0.9	-
Property Acc. (Net)	123.6	130.1	----	-
Equity (Net)	203.6	214.3	+0.4	-
Adventurous Managed	92.6	97.5	-0.4	-
Managed (Net)	188.7	198.7	+0.3	-
Cautious Managed	95.8	100.9	----	-
International (Net)	159.5	167.9	-0.2	-
Gilt & Fixed Interest	139.6	147.0	-0.6	-
Money Fund	139.7	147.1	+0.1	-
Mixed Fund (Cap)	118.4	124.7	----	-
Mixed Fund (Acc)	122.8	129.3	----	-
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	665.2	700.3	+0.2	-
Ret Man (Series 2)	225.6	237.5	----	-
Ret Cash	196.8	207.2	----	-
Pens Mixed Fd (Cap)	131.4	138.4	----	-
Pens Mixed Fd (Acc)	136.3	143.5	----	-
Pens Stlg Fd (Cap)	103.4	108.9	----	-
Pens Stlg Fd (Acc)	107.3	113.0	----	-
Pegasus Assurance Ltd				
Broad Quay, Bristol BS1 4DJ 0272 230271				
Life Funds				
Managed Aggressive	102.6	108.1	-0.1	-
Managed Balanced	99.6	104.9	-0.5	-
Managed Cautious	111.8	117.7	-0.2	-
Pension Funds				
Managed Aggressive	107.5	113.2	-0.4	-
Managed Balance	104.8	110.3	-0.3	-
Managed Cautious	115.5	121.6	-0.3	-

For Pioneer Mutual see Swiss Pioneer

	Bid Price	Offer Price	+ or -	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	133.0	140.0	----	-
Building Soc. Fd	223.0	235.0	----	-
Balanced	274.0	289.0	----	-
European	207.0	218.0	-1.0	-
GT Managed	185.0	195.0	----	-
Gartmore Mngd	122.0	129.0	----	-
German	135.0	143.0	----	-
Gilt	179.0	189.0	----	-
Global	40.0	43.0	----	-
International Equity	199.0	210.0	-1.0	-
Japan	160.0	169.0	-1.0	-
Leisure	48.0	51.0	----	-
Managed	48.0	51.0	----	-
Property	292.0	308.0	----	-
UK Equity	275.0	290.0	----	-

	Bid Price	Offer Price	+ or -	Yield Gross
Provident Mutual Life Assc. Assn.—Contd.				
Index Linked Gilt Init	127.8	134.5	-0.3	-
Overseas Equity Ord	258.3	271.9	-0.5	-
Overseas Equity Init	188.5	198.4	-0.5	-
Property Ord	222.2	233.9	----	-
Property Init	162.2	170.7	----	-
Fixed Interest Ord	227.1	239.1	-0.3	-
Fixed Interest Init	165.8	174.5	-0.2	-
Deposit Ord	186.9	196.7	+0.1	-
Deposit Init	136.4	143.6	----	-
Pension Funds				
Managed Ord	459.1	483.3	-0.3	-
Managed Init	335.1	352.7	-0.4	-
Equity Ord	712.0	749.5	----	-
Equity Init	519.8	547.2	----	-
Pen Ind Lkd Gilt Ord	189.2	199.2	-0.4	-
Pen Ind Lkd Gilt Init	144.2	151.8	-0.3	-
Overseas Equity Ord	292.6	308.0	-0.6	-
Overseas Equity Init	213.6	224.8	-0.6	-
Property Ord	280.1	294.8	+0.1	-
Property Init	204.5	215.3	+0.1	-
Fixed Interest Ord	289.2	304.4	-0.3	-
Fixed Interest Init	211.1	222.2	-0.3	-
Deposit Ord	268.3	282.4	+0.1	-
Deposit Init	195.8	206.1	----	-
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH 071-405 9222				
Prubond				
Managed Jun 17	264.0	275.0	----	-
Prudential Corporate Pension Funds				
1 Stephen St, London W1P 2AP 071-548 3281				
Prudential Managed Funds				
Discretionary Jun 17	£189.80	199.69	----	-
Equity Jun 17	£220.80	228.33	----	-
International Jun 17	£26.63	27.20	----	-
Intl Bond Jun 17	£14.17	14.36	----	-
Fixed Int Jun 17	£105.29	106.49	----	-
Index Linked Jun 17	£77.56	78.54	----	-
Property Jun 17	£109.66	115.74	----	-
Cash Jun 17	£30.7023	30.7023	----	-
Pru-Linked Retirement Plan				
Managed Jun 23	447.9	466.6	-0.4	-
Cash Jun 23	282.3	294.1	+0.3	-
Prudential Pensions Investment Account				
Pens Mngd Jun 24	179.2	192.8	-0.2	-
Pens UK Eq Jun 24	320.6	345.8	-0.2	-
Pens Intl Jun 24	187.1	201.3	-0.4	-
Pens Global Eqty Jun 24	99.6	104.9	-0.1	-
Pens Fixed Jun 24	237.9	251.2	-0.3	-
Pens Index Lk Jun 24	197.1	208.1	-0.5	-
Pens Property Jun 24	89.7	94.5	----	-
Pens Cash Jun 24	184.3	194.1	+0.1	-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

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Allied Dunbar Intl Fund Mgrs – Contd.

For conversion Prices of Shares Phone: 0624 662060

Asset Global Funds Ltd (1200)

Victory Hse, Prospect Hill, Douglas, IoM 0624 620097

CMI Fund Managers (IoM)

Clerical Medical Hse, Douglas, IoM 0624 625049

CMI Core Portfolio Fund

Equity & Law Intl Fund Mngrs Ltd

Victory Hse, Prospect Hill, Douglas IoM 0624 677877

Gartmore Fund Managers (IoM)

PO Box 32, Douglas, IoM 0624 627610

Leopold Joseph Fund Mngrs (IoM) Ltd

PO Box 52 Athol St Douglas IoM 0624 661020

Mercury Fund Managers IoM Ltd

11 Hill Street, Douglas IoM 0624 662255

Cater Allen Investment Management (CI)

Citibank (CI) Ltd "Citifunds"

Short term Investment Funds

Equity Funds

Bond Funds

EBC Trust Company (Jersey) Ltd

*Offer price includes 3% prelim. charge

International Income Fund

* Offer Price includes 3¼% Initial Charge

Equitilink International Mngt Ltd

First Aust Prime Inc Inv Co Ltd NAV June 18 C$13.21

First Aust Prime Inc Inv Co Ltd NAV June 18 US$11.06

NAV Diluted to reflect exercise of all Wrts C$12.84 US$10.73

Fidelity Investment (CI) Ltd

Fleming Group

Robert Fleming Management (Jersey) Ltd

Foreign & Colonial Mngmt (Jersey) Ltd

CMI Asset Management

Commercial Union Lux

42 Ave de la Gare L-1612

Liberty ALL-STAR World Portfolio–Eqty Fd(z)

Lloyds Bank Luxembourg

1, Rue Schiller, Luxembourg 010 352 4022121

Espirito Santo Investment Mngmt (SICAV)

Eurocu Management S.A.

Europe Plus Investissement (SICAV) (u)

Europe Value Fund (u)

EurOptec (u)

Fidelity Intl Inv Mngt (Luxembourg) SA

Asian Malaysian Growth Fd (Cayman) Ltd

Alliance Capital

Alliance International Currency Reserves

Asian Convertibles & Income Fd (Cayman)

Global Asset Management – Contd.

Orbis Investment Management Ltd

* Prices on June 18 Next Pricing June 25 Weekly Pricing

Orbitex Bahamas Ltd

ORIENT Growth Fd

PFC Internatl Portfolio Fd Mngt Ltd

ISLE OF MAN (REGULATED**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Wellington Fd Mngrs (Bermuda) Ltd

Intnl Growth Fd	$13.34	14.01	----	–

Wells Fargo U.S. IT Fund

Wells Fargo A Shs (z)	$10.93	----	–
Wells Fargo B Shs (z)	$10.58	----	–

Worldwide Limited

NAV May 29	996.18	----	–

Xiphias International Investment Fd Ltd

Xiphias Int USD	$1.0910	----	–
Xiphias Int ECU	Ecu1.0676	----	–

Yamaichi Capital Mngmt (Guernsey) Ltd

Thai Inv Fund	$10.21	----	–

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. t Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. u Designated in Luxembourg as a UCITS (Undertakings for Collective Investment in Transferable Securities). x Offered price includes all expenses except agent's commission. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase, nil ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Supervision Commission; Jersey: Commercial Relations Department; Luxembourg: Institut Monétaire Luxembourgeois.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar plunges on trade data

THE DOLLAR was under a harsh spotlight yesterday, falling against most key currencies on the back of disappointing durable goods figures.

New orders for US durable goods fell by 2.4 per cent in May, after April's 1.9 per cent rise. Economists had been forecasting a further increase of 0.3 per cent.

The dollar had already been weak in thin, early trading, with dealers focusing on their chart indicators to predict that it was likely to have trouble holding above a support level of DM1.5560.

A technical analyst at a Scandinavian Bank in London said: "We are extremely bearish for the dollar; the long-term market is bearish, the short-term is bearish – (only) the medium-term is bullish, supported by a trend line."

The pessimism was borne out and, after the disappointing figures, as well as news that the figure for unfilled orders had worsened for nine months in a row, the dollar fell through the February low of DM1.5562. It closed in London at DM1.5520, the lowest since January, and fell further in New York to end at DM1.5495.

The D-Mark continued to be supported by the unexpectedly high German money supply growth figure announced on Tuesday. However, the dollar was also weaker against sterling and even the yen, in spite of a renewed fall by the Japanese stock market.

The move increased wariness among a number of dealers that a US interest rate cut was likely to be on the agenda in the meeting next week of the Federal Reserve's Federal Open Market Committee.

Dealers added that pressure was likely to be increased by a railway strike in the US which could lead to losses of millions of dollars in fresh fruit and vegetables.

In response to the dollar's slide, the White House said the decline in durable goods orders did not undercut the prospects of economic recovery but added that lower interest rates would be justified.

The German currency was firmer against other EMS currencies, partly as a lingering result of the higher than expected money supply growth figure announced on Tuesday.

The D-Mark rose against the French franc in spite of another big French trade surplus in May. It also edged higher against the lira and rose against the pound.

Sterling languished at the bottom of the ERM, with virtually no buying. It dipped against the D-Mark to DM2.915 from DM2.917, but gained more than a cent to $1.878 in terms of the dollar. Sterling's index was stable throughout the day but edged ahead at the close to 93.1. The pound finished in New York at $1.8795.

In East Europe, Hungary abandoned its upbeat economic outlook for 1992 and devalued the forint by 1.6 per cent.

£ IN NEW YORK

June 24	Close	Previous Close
£ Spot	1.8790-1.8800	1.8620-1.8630
1 month	1.00-0.98pm	1.02-1.00pm
3 months	2.90-2.87pm	2.80-2.77pm
12 months	9.53-9.43pm	9.32-9.22pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 24	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.279	-4.73	5.97	78
Spanish Peseta	133.631	129.270	-3.26	4.36	55
Belgian Franc	42.4032	42.1923	-0.50	1.46	25
Dutch Guilder	2.31643	2.30948	-0.30	1.26	16
D-Mark	2.05586	2.04987	-0.29	1.25	20
Irish Punt	0.767417	0.767176	-0.03	0.99	3
French Franc	6.89509	6.90402	0.13	0.82	-5
Danish Krone	7.84195	7.88299	0.52	0.43	-23
Italian Lira	1538.24	1552.70	0.94	0.01	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

OTHER CURRENCIES

Jun 24	£	$
Brazil	6164.60 - 6168.30	3290.90 - 3291.20
Finland	7.9205 - 7.9435	4.2275 - 4.2305
Greece	350.800 - 356.400	187.700 - 190.700
Hong Kong	14.4775 - 14.4910	7.7315 - 7.7325
Iran	2665.00*	1435.00*
Korea(Sth)	1458.75 - 1482.30	785.90 - 795.30
Kuwait	0.54275 - 0.54375	0.28970 - 0.29000
Luxembourg	59.95 - 60.05	31.90 - 32.00
Malaysia	4.6935 - 4.7055	2.5075 - 2.5095
Mexico	5638.30 - 5650.70	3121.00 - 3122.00
N.Zealand	3.4380 - 3.4425	1.8350 - 1.8375
Saudi Ar	6.9650 - 7.0420	3.7495 - 3.7505
Singapore	3.0285 - 3.0360	1.6190 - 1.6205
S.Af (Cm)	5.2375 - 5.2495	2.7990 - 2.8005
S.Af (Fn)	7.1370 - 7.1785	3.8095 - 3.8315
Taiwan	46.20 - 46.40	24.65 - 24.75
U.A.E.	6.8200 - 6.8970	3.6715 - 3.6735

*Floating rate. Iran Official rate £120.10 $65.10

EXCHANGE CROSS RATES

Jun 24	£	$	DM	Yen	F Fr.	S Fr.
£	1	1.878	2.915	237.7	9.812	2.637
$	0.532	1	1.552	126.6	5.225	1.404
DM	0.343	0.644	1	81.54	3.366	0.905
YEN	4.207	7.901	12.26	1000.	41.28	11.09
F Fr.	1.019	1.914	2.971	242.3	10.	2.688
S Fr.	0.379	0.712	1.105	90.14	3.721	1
H Fl.	0.305	0.572	0.888	72.43	2.990	0.803
Lira	0.453	0.851	1.321	107.7	4.446	1.195
C $	0.446	0.837	1.300	106.0	4.374	1.176
B Fr.	1.667	3.130	4.858	396.2	16.35	4.395
Pta	0.544	1.022	1.587	129.4	5.341	1.435
Ecu	0.703	1.321	2.050	167.2	6.900	1.854

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

PARIS

BASE LENDING RATES

	%		%		%
Adam & Company	10	Cyprus Popular Bk	10	McDonnell Douglas Bnk	10
Allied Trust Bank	10	Duncan Lawrie	10	Midland Bank	10
AIB Bank	10	Equatorial Bank plc	10	Mount Banking	10
Henry Ansbacher	10	Exeter Bank Limited	10.5	NatWestminster	10
B & C Merchant Bank	10.5	Financial & Gen. Bank	10	Northern Bank Ltd	10
Bank of Baroda	10	Robert Fleming & Co	10	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	Robert Fraser & Partners	10.5	Provincial Bank PLC	11
Bank of Cyprus	10	Girobank	10	Rea Brothers	10
Bank of Ireland	10	Guinness Mahon	10	Roxburghe Guarantee	10
Bank of India	10	Habib Bank AG Zurich	10	Royal Bk of Scotland	10
Bank of Scotland	10	Hambros Bank	10	Smith & Williamson Secs	10
Banque Belge Ltd	10	Heritable & Gen Inv Bnk	10	Standard Chartered	10
Barclays Bank	10	Hill Samuel	10	TSB	10
Brit Bk of Mid East	10	C. Hoare & Co	10	United Bk of Kuwait	10
Brown Shipley	10	Hongkong & Shanghai	10	Unity Trust Bank Plc	10
CL Bank Nederland	10	Julian Hodge Bank	10	Western Trust	10
Citibank NA	10	Leopold Joseph & Sons	10	Whiteaway Laidlaw	10
City Merchants Bank	10	Lloyds Bank	10	Yorkshire Bank	10
Clydesdale Bank	10	Meghraj Bank Ltd	10		
Co-operative Bank	10				
Coutts & Co	10				

Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Cash rates steady

MONEY market rates held steady during thin trading, with the City's books well balanced and interest diverted by a £2.75bn auction in the gilts market yesterday.

The Bank of England's initial forecast shortage was very low at £350m and principally made up of Treasury Bills and paper maturing assistance, which was expected to drain £284m from the system.

UK clearing bank base lending rate 10 per cent from May 5, 1992

The forecast was later moved down to £150m, with the Bank making barely any move to cover it. It bought only £12m of short-term band 1 bank bills at 9¾ per cent in the morning. The Bank also provided late assistance of £40m. Late assistance is often used as a device to control the activities of the commercial banks and can carry a tough interest rate which is never declared.

However, the Bank of England indicated that in yesterday's case, as the shortage was so low, it was merely used to bail out banks which had belatedly realised they were short of cash.

The City was well balanced for cash yesterday and money rates barely moved. The key three-month rate eased one tick to 10$\frac{1}{16}$ per cent, while the overnight rate moved between a low of 9¾ to a high of 11 per cent and closed at 10$\frac{1}{8}$.

Dealers said the rates were under pressure for technical reasons and could be expected to ease slightly across the board, perhaps to around 9$\frac{15}{16}$ per cent by the end of the month after a number of banks, particularly Japanese houses, had paid up their roll-over money.

However, they added that any easing was unlikely to signal an imminent cut in interest rates. Prospects of a cut were knocked back after Germany announced a higher than expected money supply growth figure on Tuesday.

Short futures held up following Tuesday's slide and the successful auction yesterday morning of £2.75bn of gilts. The auction was well covered, and September gilt futures were strong after the auction with more than 53,000 lots dealt.

The sterling contract for September settlement saw nearly 10,600 lots traded, against Tuesday's 21,623, and it recovered two points to close at 90.18. However, the general mood was summed up by one trader who said: "It is dullsville out there again."

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

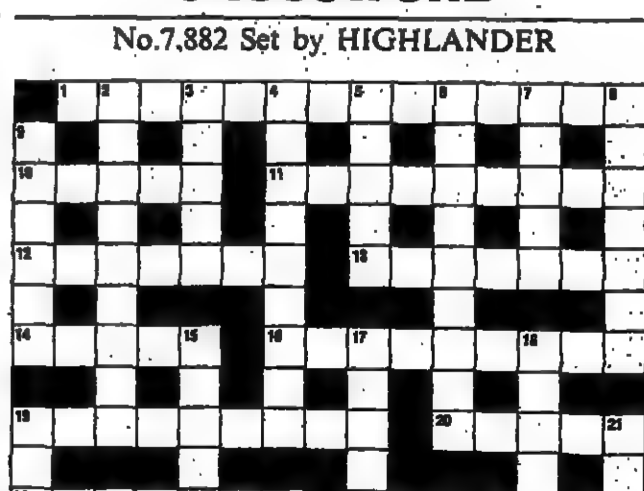
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

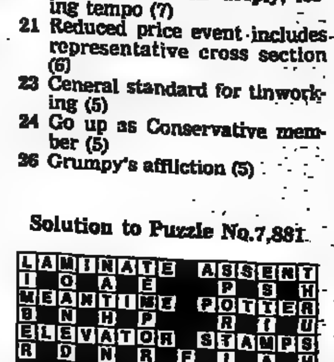
No.7,882 Set by HIGHLANDER



ACROSS
1 Label enthusiast makes confused call to MP in the area (9)
10 Set fire to church on the hill (5)
11 Trains take coast route to horse-track (5,3)
12 Six in Test is neither here nor there (7)
13 Foxglove is removed with fingers (7)
14 Strong drink not allowed, by the way (5)
16 In overwrought manner former wife called Larry heartless (9)
19 Choosy lad upset: It's no place for evening classes (3,6)
20 Go for hacking vocal sounds (5)
22 The French like a cone that's crisp (7)
25 Spot youngster turning cloth (7)
27 Second class single to country producing porcelain (4,5)
28 What's central to tutorial? That's left to college (5)
29 As singer belted out description of some jackets (8)

DOWN
2 Start to go astray over one Conservative area (9)
3 Leader of Moslems had arranged one for leader of Moslems (5)
4 Spanish gent has unusual role supporting group of plotters (9)
5 Northern landowner has retreat on top of Derwentwater (5)
6 To teach in two identical measurements is not onerous (9)
7 That is to say draw on it (2,3)
8 Boyfriend put down in majestic fashion (7)
9 Presents conditions for test as arranged (5)
15 Chile can't provide materials for this type of college (9)
17 Scales in two keys and one note: add marks for reading off (9)
18 Decide to put off using explosive device (9)
19 Composer thinks deeply, losing tempo (7)
21 Reduced price event includes representative cross section (6)
23 General standard for tinworking (5)
24 Go up as Conservative member (5)
26 Grumpy's affliction (5)

Solution to Puzzle No.7,881



WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · ITALY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE

[illegible]

CANADA

TORONTO

4:00 pm prices June 24

[illegible]

MONTREAL

4:00 pm prices June 23

[illegible]

INDICES

NEW YORK

DOW JONES

[illegible]

STANDARD AND POOR'S

[illegible]

	Jun 24	Jun 23	Jun 22	Jun 19	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
NYSE Composite	221.81	[illegible]	221.56	221.96	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	374.20	376.74	375.62	379.39	418.99 (12/2)	374.20 (24/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	551.39	553.36	549.73	554.20	644.92 (12/2)	549.17 (18/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 19	Jun 12	Jun 5	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.03	2.99	3.07

	Jun 17	Jun 10	Jun 3	year ago (approx.)
S & P Industrial div. yield	2.72	2.69	2.63	2.74
S & P Indl. P/E ratio	28.03	28.44	28.96	19.24

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
RJR Nabisco	4,669,700	9⅝	- ⅛
Philip Morris	9,641,900	73¾	+ ⅝
Telefonos	4,911,600	42¼	- 1⅜
Con Edison	2,372,500	28	+ ⅛
Syntex	2,276,300	35	- 1¼
IBM	2,118,400	97⅛	+ 1⅛
Computer Assoc	1,988,800	11⅛	- ⅜
Stride-Rit	1,922,100	20⅜	- 4⅛
Merck	1,839,800	48⅛	- 1⅜
Amer Brand	1,488,300	45⅛	- ⅛

TRADING ACTIVITY

† Volume Millions	Jun 24	Jun 23	Jun 22
New York SE	193.850	189.170	164.340
Amex	10.379	11.339	9.226
NASDAQ	(a)	165.669	151.192
NYSE			
Issues Traded	2,257	2,282	2,271
Rises	867	990	605
Falls	820	732	1,140
Unchanged	570	560	525
New Highs	30	20	22
New Lows	49	42	75

CANADA

TORONTO	Jun 24	Jun 23	Jun 22	Jun 19	1992 HIGH	1992 LOW
Metals & Minerals	3101.83	3095.19	3095.46	3101.27	[illegible] (16/1)	[illegible] (8/4)
Composite	3339.64	3343.00	3340.66	3350.89	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	(e)	1763.30	1758.26	1760.97	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

[illegible]

Saturday June 20: Taiwan Weighted Price 4618.02, Korea Comp Ex. [illegible]
‡ Subject to official recalculation. † Correction.
Base values of all indices are 100 except: Austria Traded, BEL20 [illegible] and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.[illegible] Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday 24 June 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Meiji Milk Prod	5.2m	981	-40	Mitsubishi Kakoki	2.4m	915	-60
Morinaga Milk	3.5m	604	-60	Chiyoda Corp	2.2m	1,720	-60
Okamoto Inds	2.9m	1,170	-70	NPN Steel Corp	2.2m	281	-5
Snow Brand Milk	2.9m	786	-10	NPN Formula	2.0m	601	-71
Daikyo Kanko	2.9m	680	+5	Hitachi	2.0m	765	-4

4:00 pm prices June 24

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19⅞	11⅞	AAR Corp	0.48	3.9	19	171	12⅛	12	12⅛	+⅛
26	18½	A L Labs A x	0.18	1.0	73	400	18¼	d18¼	18⅜	−¼
68¾	58	AMP Inc	1.52	2.6	23	886	68	67¾	67¾	−¼
80¼	60⅞	AMR				1674461	64⅝	63½	63⅝	−⅛
2⅛	1⅛	ARX				2z100	1⅛	1⅛	1⅛	
53½	39⅝	ASA	2.60	6.3	26	971	40⅛	39¼	39⅞	−½
34¼	26⅛	Abbott Lab	0.60	2.1	219332		28⅝	27¾	28⅝	+⅛
13⅞	12	Abitibi Pr	0.50	3.8		8z100	13	13	13	
11⅝	10⅛	ACM Gvt In	1.13	10.3		132	11	10⅞	11	
10⅜	9⅛	ACM GvOpp	0.96	9.8		32	9¾	9⅝	9¾	+⅛
9½	8½	ACM Gvt Sp	0.80	8.6		101	9¼	9⅛	9¼	
11⅛	10⅛	ACM Gvt Se r	1.13	10.6		369	10⅝	10⅝	10⅝	
9⅝	8⅜	ACM Man	0.96	10.4		75	9½	9⅜	9⅜	−⅛
12⅞	10⅜	ACM Managd	1.24	10.9		51	11½	11⅜	11⅜	
11¾	6¼	Acme Cleve	0.40	5.4	25	128	7½	7⅜	7⅜	
6¼	4⅜	Acme Elect				4z100	4⅝	4⅝	4⅝	+⅛
33¼	18⅞	Acuson			13	583	20⅝	20⅛	20⅛	+⅛
19½	18⅛	Adams Expr	1.63	8.8	0	68	18⅝	18½	18⅝	+⅛
49⅛	29½	Ad Micro	3.00	9.8		1439	31	30⅜	30⅝	−⅛
21½	8¾	Ad Micro P	3.00	34.3		38750	9	d8⅝	8¾	−⅜
9⅛	5	Advest Grp	0.16	2.7	69	57	6⅛	6	6	−⅛
36	33	Aegon ADR	1.68	4.9	6	30	34½	34¼	34⅛	
47	38⅞	Aetna Lf	2.76	6.6	71635		41⅞	41	41¾	+¼
12	8⅝	AffR A	0.24	2.3	11	497	10⅝	10⅛	10⅛	−⅛
32⅞	24	Aflac	0.44	1.5	15	790	29⅛	28⅝	29	−⅛
19⅜	16⅛	Ahmanson	0.88	5.5	71162		16⅛	15¾	15⅞	−½
22½	5¾	Aileen Inc			7	359	8⅛	7⅞	8	+½
49½	36½	Air Pr Chm	0.86	2.1	171729		41⅝	40⅝	41⅛	−½
29¾	13⅞	Airbne Frt	0.30	2.1	11	529	14¼	14⅛	14⅛	+⅛
34¼	22⅝	Airgas Inc			27	46	30⅛	30¼	30⅝	+⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

Price data supplied by Telekurs.

NASDAQ NATIONAL MARKET

4:00 pm prices June 24

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		21	982	19½	18¾	19	-⅛
Xoma Corp		7	2978	13½	13	13	-⅛
Yellow Fr	0.94	21	1394	28⅝	28¼	28¼	+1⅛
York Rsch		5	814	5½	5	5⅛	-⅛
ZionsUtah	1.44	11	83	u55½	82	84	+2

AMEX COMPOSITE PRICES

4:00 pm prices June 24

AMERICA

Rate cut hopes support Dow after poor data

Wall Street

ANOTHER modest improvement was scored yesterday by the Dow Jones Industrial Average as investors' hopes for a reduction in interest rates were boosted by unexpectedly bad economic data, *writes Patrick Harverson in New York.*

The Dow blue chip indicator ended 5.08 firmer at 3,290.70, although below the high for the day when the index momentarily breached 3,300. The more broadly based Standard & Poor's 500, however, lost a slight 0.20 on balance at 403.84, while the Nasdaq composite index was finally 1.97 off at 551.39. Turnover on the New York SE was 194m shares.

The news from the Commerce Department, that durable goods orders fell 2.4 per cent in May, would normally have depressed market sentiment. Analysts had expected a modest rise in May orders, and the reported decline *suggested* yet again that the economic recovery is extremely sluggish.

The market rose on the news because investors interpreted the data as increasing the chances of an easing of policy by the Federal Reserve. If the economy remains weak, analysts believe that the Fed may cut interest rates *once more* to boost business activity. These hopes were also buoyed by the latest call for lower rates from the White House: President Bush said yesterday that, because of low inflation, there was room for another cut.

Tobacco shares fluctuated wildly after the Supreme Court ruled that smokers suffering from cancer can sue cigarette makers under state injury laws. The Court rejected the tobacco industry's argument that all such lawsuits were precluded by federal tobacco-warning requirements, which initially sparked heavy selling, but when the market realised that the Court had restricted the types of claims that can be pursued by litigants, stocks recovered sharply.

RJR Nabisco fell $1 to $8¾ but rallied to end just $¼ off at $9½ in heavy turnover, and Philip Morris, the other big cigarette group, rebounded from a more than $2 decline to end a net $⅜ up at $73⅜.

IBM rose $1⅛ to $97⅛ in busy trading on a press story that several senior board members of the computer group have recently purchased large amounts of IBM shares.

Syntex lost $1⅞ to $33 on reports that broking house Merrill Lynch had downgraded its rating on the stock. Weyerhaeuser, said to be benefiting from rising lumber prices, caused by logging restrictions related to conserving the natural habitat of spotted owls, put on $1⅛ to $34⅞.

Canada

TORONTO marked another dull session in the countdown to the end of the second quarter by recording slight losses in slow trade. The composite index shed 3.4 to 3,339.6.

SHORT-TERM uncertainty now motivates Brazilian equities, according to Mr Alvaro A. Vidigal, president of the Sao Paulo Stock Exchange (Bovespa). The last few days seem to confirm Mr Vidigal's observation, *writes Bill Hinchberger.*

At noon yesterday, the Bovespa index was down 2.2 per cent at 20,097. On Tuesday, it closed just 12 points off following a 6.6 per cent drop on Monday. On Friday it had registered a 10.6 per cent rebound. Although he remains bullish on the long term road to economic reform, Mr Vidigal admitted that the short term is "unpredictable", mostly because of the political crisis engendered by allegations of corruption involving close associates of President Collor de Mello.

German steel shares transcend cyclical slump

The industry's rationalisation plans are looking good to investors, Christopher Parkes writes from Bonn

Stuck at the bottom of the world-wide cyclical slump, German steelmakers have done well in the equity market this year.

Relative strength and momentum statistics from Merck Finck in Düsseldorf put the sector consistently high in the performance charts since mid-March. Even after some profit-taking over the past week, Hoesch, Klöckner-Werke and Thyssen are standing nearly 20 per cent above their lows for the year.

The steelmakers seem finally to have abandoned their "every man for himself" policy and implemented classical techniques for improving buoyancy. They are off-loading excess costs, notably by cutting highly paid workforces. *Some 70,000 are expected to* lose their jobs by the end of the decade. At the same time they are merging, co-operating and, in the process, rationalising the overall structure of the industry. However, while British Steel and Usinor Sacilor represent virtually the entire steel output of the UK and France respectively, Germany still has five steel specialists.

That will come down to four in short order, when Krupp formally completes its takeover of Hoesch. After that, according to Mr Gerhard Cromme, the tough Krupp chief, the number is likely to fall eventually to three, but "never" less than two. He and Mr Heinz Kriwet, boss of Thyssen, Germany's leading light in steel, are determined that their businesses will remain independent.

Survival prospects are not so bright at the bottom of the heap, where Klöckner-Werke, a 3.4m tonne per year producer, is feeling the squeeze.

Announcing the second passed dividend in succession earlier this year after net profits had slumped from DM78.3m to DM1.5m, Mr Hans Christoph von Rohr, its chairman, bravely remarked that he saw no reason to get out of steel. "Everyone is now talking to everyone else in the steel industry," he added. In the interim, however, the shares are trading on a current price/earnings ratio of around 40, according to forecasts by Mr Chris Heminway of Robert Fleming, falling to just above 7 in three years' time.

The impulse for the exchanges between steelmakers was the Krupp move against Hoesch last October, which showed that, in spite of obstacles built into the German corporate and financial system, an aggressive takeover of a leading German company can be mounted, and implemented.

Whether that is now true for foreign bidders remains to be seen. Thyssen, currently busy knitting together its conventional and special steels subsidiaries (and cutting 5,000 jobs in the process), has said it is not in the market to buy.

Mr Cromme, of Krupp, in charge of a 9.5m tonne outfit, says he has enough to do. At present, while tying up the Hoesch deal, he is also trying to persuade the authorities of his right to subsidies for his purchase and rebuilding of the run-down east German EKO Stahl business.

The most likely next stage in the restructuring round is expected to include more co-operation deals, such as that struck recently between the steel tube divisions of Hoesch and Mannesmann, which will tie existing steel groups closer together.

The German industry looks in far better shape now, ahead of the expected *upswing in the* cycle. In spite of a pay award of 6.4 per cent, compared with a 5.5 per cent average in Germany this year, rationalisation looks likely to improve competitiveness at least in terms of labour costs per tonne. And although manufacturers complain about selling prices down at 1982 levels, analysts are unanimous that the worst of the cyclical slump is over.

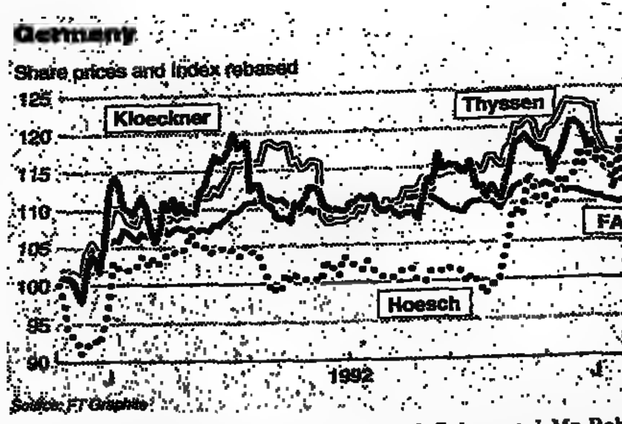
They also speak with one voice of the industry leader, Thyssen – 11m tonnes of steel a year and a wide range of diversified interests to ease it over the cyclical bumps – as the long term quality German steel stock.

Although Thyssen's pre-tax earnings this year are expected to take a pummelling, and Mr Kriwet has suggested that he might not be able to match last year's DM10 dividend, analysts put it on a prospective p/e of about 13 and their forecasts signal accelerating upwards movement from 1993 onwards.

If Hoesch had remained independent, it, too, would have ranked among the favoured. But absorption by Krupp – "for an absolute song", according to Mr Heminway – has taken it off the market, and investors have been left to speculate, short term, on the value of the Krupp shares in the takeover package.

When Krupp comes to market, later this summer, Mr Michael Geiger and Mr Robert Sassoon at County NatWest advise caution. Mr Cromme's transformation has yet to free Krupp of its heavy gearing and a commitment to pay back state subsidies.

If the EKO deal goes through, Krupp will have to find substantial funds to bring it up to scratch. And while Mr Cromme speaks confidently of the synergistic savings from his Hoesch link, he has work to do to extract them. It is a little early to "get positive".



EUROPE

Bourses show signs of responding to economic news

THERE was a suggestion yesterday that bourses will respond to good economic news, when it comes, *writes Our Markets Staff.*

FRANKFURT saw movement in derivatives after equity hours, DAX index futures dropping on a steep fall in US durable goods orders, then recovering on positive German inflation data. At the official close, the DAX was 2.65 lower at 1,768.49 after a 2.68 fall to 702.19 in the FAZ at midsession, turnover easing from DM4.7bn to DM4.6bn.

Daimler fell DM5.90 to DM795.50 in market hours and, going ex a DM13 dividend, lost another net DM6 to DM776.70 in the afternoon. Dealers said that investors been buying Daimler put options heavily to hedge the downside as they waited for a final ruling on Germany's participation in the European jet fighter project.

Among second liners VEW, the power utility group, rose another DM6.50 to DM228 for a two-day gain of DM13.80. After hours, VEW said that it had bought control of Harpener, the holding company which, before it was swallowed by the ill-fated Swiss Omni group in the late 1980s, had half of its *sales in power generation.*

PARIS opened the the first day of the new trading account firmer, helped by a May trade surplus of FFr4.5bn. The CAC 40 index closed up 3.84 at *1,899.64*, after reaching an intraday high of 1,913.97.

Peugeot slipped FFr10 to FFr736 after Mr Jacques Calvet, chairman, warned that the European car market could contract by 1 per cent in 1992. He said that he expected a further decline in Germany, while Spain, Portugal and Belgium were likely to improve.

Total finished up 80 centimes at FFr232.90 after reports that US and international offers in the government's sale of a 12.4 per cent stake had been oversubscribed two-fold.

Elsewhere Michelin extended Tuesday's gains, up FFr6.00 at FFr202.70.

MILAN dropped to a fraction above its 1992 low as hopes faded that the new premier Mr Giulio Amato, will assemble an effective government. The Comit index ended 3.70 lower at 468.99. Olivetti saw more speculation about alliances in the computer industry, edging up L20 to L3,233; Fiat dropped L70 to L5,410 but recovered to L5,445 on the kerb.

ZURICH fell as banks and insurers came under selling pressure, the SMI index of leading shares ending 8.8 easier at 1,838.3. UBS came under pressure from rumours, *later* denied, that Moody's Investors Service planned to downgrade the bank's triple-A rating; the bearers topped the active list as they closed SFr70 lower at SFr3,570, after SFr3,520.

MADRID, plagued by bad economic news, saw the general index down another 3.71 at 239.99. *The construction sector* was badly affected following a meeting on Tuesday between the dindsutry and government. Tabacalera fell to an intraday low of Pta5,450 on news of a US ruling which may open manufacturers there to lawsuits, before recovering slightly to close down Pta120 at Pta5,590.

OSLO took little comfort from Tuesday's rise and the market returned to negative territory. The all-share index fell 3.53 to 413.32 in turnover of NKr222m. Dealers were disappointed with the pricing of *Hafslund* Nycomed's offering of its B shares in the US at $22.50 per share. The B closed NKr3 weaker at NKr164.

ISTANBUL gained 3.7 per cent on expectations of parliamentary discussions this week on tax reform. The 75-share index closed up 142.16 at 3,982.53, its highest close since April 16. The reform proposals would provide tax relief for mutual funds which invest 25 per cent of their portfolios in stocks.

TEL AVIV hit a new record in high turnover following the *Labour party's general election* victory, the blue chip share index soared 8.93, or 6.5 per *cent to 146.15.*

FT-SE Eurotrack 100 - Jun 24

Hourly changes							
Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1147.24	1147.47	1147.35	1147.18	1146.73	1145.74	1145.72	1145.09

Day's High 1148.02 Day's Low 1144.83

Jun 23	Jun 22	Jun 19	Jun 18	Jun 17
1148.49	1149.77	1154.66	1145.88‡	1158.40

Base value 1000 (26/10/90). ‡ Partial.

SOUTH AFRICA

SENTIMENT improved in Johannesburg yesterday with industrial stocks stronger. The *industrial index advanced* 11 to 4,474 and the overall index was 5 higher at 3,638. The gold index lost 15 to 1,121 on a lower bullion price.

ASIA PACIFIC

Nikkei back below 16,000 in low volume

Tokyo

THE Nikkei average closed at its lowest level since October 1986 yesterday as selling of speculative theme stocks dragged the index below 16,000 again, *writes Emiko Terazono in Tokyo.*

The 225-issue average fell 253.32, or 1.6 per cent, to 15,853.67. The index rose to the day's high of 16,313.33 in the *morning on buying by inves*tors trying to cover short positions. However, arbitrage selling and liquidation of holdings by dealers amid low volume pushed prices lower, and the Nikkei hit the day's low of 15,816.04 just before the close.

Volume rose slightly from 211m shares to 220m. Falls led rises by 666 to 250, with 176 issues unchanged. The Topix index of all first section stocks lost 13.84 to 1,283.37, and in London the ISE/Nikkei 50 index dipped 3.65 to 961.73.

Analysts said the Nikkei's *decline*, triggered by *last* Wednesday's rumours of financial trouble at Daikyo, the condominium builder, would continue unless uncertainty surrounding the financial soundness of certain companies disappeared. Investors are especially nervous about real estate companies and banks, which have been affected by the plunge in asset values.

Mr Craig Chudler at UBS Phillips & Drew commented: "The market needs proof that the companies are in as sound *shape as they say they are.*"

Banks and construction and real estate companies were among the heaviest losers of the day. Industrial Bank of Japan fell Y60 to Y1,480, Mitsui Fudosan slipped Y10 to Y800 and Shimizu, the contractor, lost Y36 to Y889.

The five most active issues of the day were bio-technology theme stocks. Meiji Milk Products, the most active, dropped Y49 to Y961 and Morinaga Milk Industry Y50 to Y804.

Steel issues were weak on earnings worries. Leading steel companies *face redemptions of* equity-linked bonds issued in the bull market of the late 1980s. According to Kleinwort Benson, Nippon Steel needs to repay $1.8bn this fiscal year, and Kobe Steel faces $1.5bn in redemptions. Nippon Steel declined Y8 to Y261 and Kobe Steel lost Y2 to Y288.

In Osaka, the OSE average receded 219.05 to 18,828.86 in volume of 16.1m shares.

Roundup

WITH THE exception of Hong Kong, the tribulations of Tokyo left the region in muted form yesterday.

HONG KONG climbed for the third day in a row, the Hang Seng index gaining 67.35 to 5,965.21, but *after a day's high* of 5,987.91. Turnover expanded to HK$3.59bn from HK$2.99bn. Cheung Kong rose 40 cents to HK$26.10 and Hopewell put on 15 cents to HK$5.80.

SEOUL fell to a 4½-year low, the composite index losing 8.00 to 551.99 in turnover of Won171.1bn. Securities shares *were among the weakest* issues, with a decline of 1 per cent in their index value.

AUSTRALIA was encouraged by futures gains, the All Ordinaries index closing 3.7 up at 1,647.6 in turnover of A$319.6m. The recently listed Fairfax gained 2 cents to A$1.50 in volume of 2.8m shares.

TAIWAN reversed early gains as profit-taking set in. The weighted index finished *35.40 down* at 4,655.06 in turnover of T$41.3bn.

Cement and construction shares showed the biggest losses, with Chia Hsin Cement off T$1.50 at T$55.00.

MANILA gained ground on bargain hunting, the composite index rising 23.71 to 1,477.57. Turnover decreased to 324m *pesos from 394m.*

NEW ZEALAND weakened slightly. The NZSE-40 index shed 2.80 to 1,530.53.

KARACHI climbed as the government announced plans to disinvest shares of the state-run utility Sui Northern Gas, which rose Rs8.25 to Rs54.50. The 100-share index closed *35.52 higher* at 1,524.13 *on a* 45 per cent rise in turnover.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

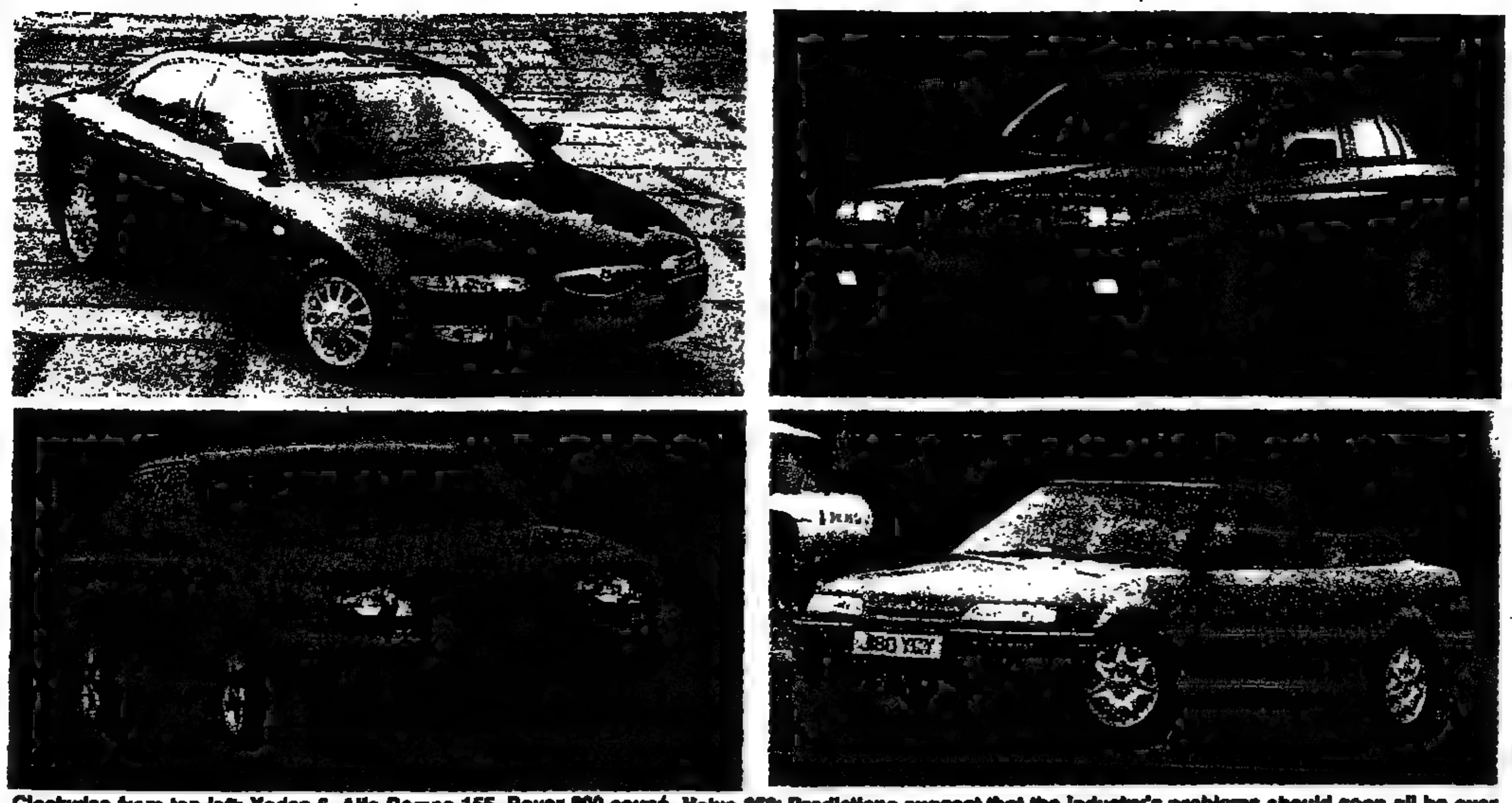
NATIONAL AND REGIONAL MARKETS	WEDNESDAY JUNE 24 1992								TUESDAY JUNE 23 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	147.74	+0.0	116.63	118.28	119.21	130.79	+0.2	4.18	147.70	117.51	118.76	120.21	130.56	153.68	140.94	140.24
Austria (19)	171.42	+0.7	135.33	137.24	138.32	138.35	+0.1	2.11	170.18	135.39	136.84	138.51	138.26	186.70	162.48	185.06
Belgium (46)	142.73	+1.4	112.68	114.26	115.16	112.46	+0.4	5.43	140.82	112.04	113.22	114.61	112.00	146.19	135.87	127.44
Canada (115)	124.52	+0.0	98.30	99.68	100.46	107.84	+0.0	3.40	124.51	99.06	100.11	101.33	107.88	142.12	124.32	139.44
Denmark (35)	239.80	+3.0	189.31	191.96	193.49	194.55	+2.1	1.83	232.85	185.25	187.22	189.51	190.57	273.94	226.81	242.35
Finland (15)	76.38	−0.2	60.30	61.15	61.63	67.79	−0.8	2.08	76.51	60.87	61.52	62.27	68.34	89.80	73.64	100.61
France (104)	161.40	+1.0	127.41	129.20	130.22	132.28	+0.2	3.53	159.75	127.10	128.44	130.01	132.06	168.75	146.06	126.92
Germany (65)	125.67	+0.5	99.21	100.62	101.40	101.40	−0.4	2.28	125.05	99.49	100.56	101.77	101.77	125.67	114.67	109.45
Hong Kong (55)	251.81	+1.1	198.79	201.59	203.19	249.97	+1.1	3.27	249.11	198.19	200.29	202.76	247.29	254.67	176.36	152.21
Ireland (16)	157.84	+0.2	124.61	126.36	127.36	128.97	−1.0	4.21	157.60	125.38	126.72	128.27	130.04	173.71	151.78	143.98
Italy (78)	70.31	+0.0	55.51	56.29	56.73	61.70	−0.8	3.38	70.28	55.91	56.50	57.20	62.19	80.86	68.39	75.63
Japan (473)	95.08	−0.8	75.06	76.12	76.73	76.12	−1.2	1.12	95.82	76.23	77.04	78.00	77.04	140.95	88.70	130.14
Malaysia (69)	239.81	+0.0	189.32	191.98	193.49	231.68	−0.1	2.73	239.74	190.73	192.75	195.11	231.84	250.18	212.49	236.66
Mexico (18)	1413.18	−0.3	1115.64	1131.36	1140.27	4823.02	−0.2	1.22	1417.92	1128.09	1140.08	1154.04	4832.21	1789.77	1376.91	981.93
Netherland (25)	160.80	+0.3	126.95	128.73	129.75	128.33	−0.6	4.37	160.36	127.58	128.94	130.52	129.07	165.22	147.88	132.97
New Zealand (14)	46.46	+1.1	36.68	37.20	37.49	45.30	+1.1	5.00	45.96	36.56	36.95	37.41	44.81	48.52	42.01	47.78
Norway (23)	177.28	+0.1	139.93	141.91	143.03	145.98	−0.8	1.74	177.01	140.83	142.33	144.07	147.16	192.95	161.26	192.66
Singapore (38)	222.88	+0.3	175.95	178.43	179.83	166.36	+0.2	1.99	222.13	176.73	178.61	180.79	166.09	229.63	192.76	195.95
South Africa (61)	219.05	+0.8	172.93	175.36	176.74	182.92	+0.2	2.82	217.34	172.91	174.75	176.88	182.53	263.60	203.16	229.61
Spain (50)	150.29	−0.8	118.65	120.32	121.27	111.24	−1.8	5.55	151.56	120.58	121.87	123.35	113.27	161.72	146.86	148.89
Sweden (28)	193.52	+1.6	152.78	154.93	156.15	160.57	+0.7	2.36	190.41	151.49	153.11	154.98	159.41	200.28	173.09	187.71
Switzerland (64)	107.73	+0.4	85.05	86.25	86.94	93.80	−0.4	2.29	107.26	85.33	86.25	87.31	94.19	109.43	95.99	89.27
United Kingdom (227)	190.89	−0.3	150.85	152.76	153.96	150.65	−1.0	4.95	191.32	152.21	153.81	155.70	152.21	200.07	185.85	159.68
USA (522)	164.56	−0.1	129.91	131.75	132.79	164.56	−0.1	3.04	164.74	131.07	132.47	134.09	164.74	171.66	160.92	150.27
Europe (795)	152.63	+0.2	120.49	122.19	123.16	122.53	−0.6	3.98	152.27	121.15	122.44	123.94	123.27	156.88	139.31	131.49
Nordic (101)	179.16	+1.9	141.44	143.43	144.56	141.99	+1.0	2.11	175.79	139.85	141.34	143.07	140.55	188.52	169.66	181.28
Pacific Basin (718)	102.24	−0.6	80.71	81.85	82.50	82.94	−0.9	1.49	102.82	81.81	82.68	83.69	83.72	141.97	94.40	131.00
Euro – Pacific (1513)	122.60	−0.2	96.78	98.14	98.92	99.26	−0.8	2.73	122.81	97.70	98.74	99.95	100.02	145.21	113.80	131.52
North America (637)	162.05	−0.1	127.93	129.74	130.77	160.70	−0.1	3.05	162.22	129.06	130.45	132.05	160.87	169.69	158.70	149.51
Europe Ex. UK (568)	129.64	+0.6	102.34	103.80	104.62	106.21	−0.3	3.27	128.88	102.53	103.64	104.92	106.51	131.77	121.81	114.10
Pacific Ex. Japan (245)	172.56	+0.5	136.22	138.17	139.25	153.61	+0.6	3.49	171.65	136.57	138.04	139.72	152.76	175.31	149.00	139.26
World Ex. US (1707)	124.52	−0.1	98.31	99.70	100.48	101.62	−0.7	2.74	124.71	99.22	100.28	101.50	102.35	146.91	116.45	133.29
World Ex. UK (2002)	132.02	−0.1	104.22	105.70	106.54	117.96	−0.4	2.58	132.17	105.16	106.28	107.59	118.43	150.58	127.21	135.92
World Ex. So. Af. (2168)	136.56	−0.1	107.81	109.34	110.20	120.44	−0.5	2.86	136.76	108.81	109.97	111.32	121.02	153.05	130.04	137.43
World Ex. Japan (1756)	160.47	+0.1	126.68	128.48	129.50	146.90	−0.2	3.40	160.36	127.58	128.95	130.54	147.25	165.40	153.20	143.50
The World Index (2229)	137.08	−0.1	108.22	109.75	110.62	121.01	−0.5	2.86	137.27	109.21	110.37	111.73	121.58	153.70	130.66	138.02

At the quarterly panel meeting of the FT-Actuaries World Indices, it was decided to make the following constituent changes to Belgium with effect from July 1 1992: **Deletions:** Barco, Bekaert AFV and Tessenderlo (Ordinary & AFV).
Constituent change with effect 26/6/92: Addition: Baloise (Reg.) (Switzerland).

FINANCIAL TIMES SURVEY

EXECUTIVE CARS

Thursday June 25 1992



Clockwise from top left: Xedos 6, Alfa-Romeo 155, Rover 800 coupé, Volvo 850: Predictions suggest that the industry's problems should soon all be over

Challenge looms from Japan

Hints of recovery in the US and predictions from forecasting groups suggest the executive car industry's problems should soon be over. But there is a subdued, cautious air in western boardrooms. John Griffiths looks to the east for an explanation

Stirrings of recovery in North America, the world's single most valuable market for executive and luxury cars, are producing some cautious sighs of relief in the boardrooms of Mercedes-Benz, Volvo, Jaguar, BMW and other European companies specialising in the sector.

Although total car sales in the US so far this year are responding only sluggishly to President George Bush's efforts to prod life into the economy, the executive sector appears to be pointing the way to sharper growth in the future.

Thus Mercedes' US sales in the first five months of the year were up by 18 per cent, BMW's up by nearly a quarter and those of Jaguar – among the companies hardest-hit last year – by more than a tenth.

More positively still, in May both Jaguar and Rolls-Royce reported a doubling of sales compared with year-ago levels.

For most of the European companies, however, it is a case of one step forward after two steps back: Mercedes' US sales dropped by one quarter last year, for example, while Jaguar's sales fell by one half. Audi, Volkswagen's executive car arm, is enjoying sales up nearly 20 per cent this year – but only after seeing its sales nearly halved in 1991.

For a few European companies, there is not even the step forward: five months into 1992, luxury sports car maker Porsche's US sales have sunk further, to fewer than 2,000 units, compared with annual sales of up to 30,000 a year in the late 1980s.

On the surface, at least, the predictions now emerging from several of the industry's leading forecasting groups suggest that the executive car industry's problems should all soon be over. According to DRI-McGraw-Hill, for example, the sector will remain the fastest growing one in North America, at least until 1996, as a result of post-war "baby boomers" moving into middle-aged affluence and their disposable income rising as their children leave home – a phenomenon being replicated, to a lesser extent, in much of Europe.

For cars typified by Mercedes' mid-range 300 Series, Volvo's 700 Series and BMW, DRI says it believes there is the potential for 60 per cent sales growth in the US over the next five years or so.

The growth forecast is far from confined to North America, however. On DRI's projections, all the leading car producing nations of the world will soon be starting a sharp upturn, which by 1996 should see global car sales of a record 40m units, some 21 per cent above last year's level.

There are good reasons, however, for the subdued, cautious air in the western industry's boardrooms.

If the European companies are starting to enjoy renewed growth in North America, their Japanese rivals are, for the most part, enjoying more. While everyone else lost sales last year, Nissan's Infiniti, Toyota's Lexus executive and luxury car franchises actually added sales, as did Honda's Acura operation. In the first five months of this year, Lexus sales have risen by more than 70 per cent and Infiniti's by nearly 40 per cent.

Europe has yet to feel anything like the full force of Japanese competition in the executive and luxury sectors.

Japanese manufacturers are taking a "softly, softly" approach to *gaining share in an area of the market* which traditionally has provided Europe's indigenous producers with high profit per unit.

The European industry knows, however, that in the longer term it faces a challenge within Europe no less severe than that already being experienced in North America.

Later this year, Toyota and Honda will join Nissan in producing cars in the UK. The production of all three, however, is targeted at the volume car market, giving the Japanese producers the flexibility to import many more high-value cars from Japan, *without seriously running foul of the* EC-Japan "understanding" under which Japan will continue to market cars "prudently" throughout the transition to an open market.

Whereas only a few years ago chief executives of companies such as BMW and Mercedes were prone to put on a bold front about such competition, implying that the Japanese industry would not be able to match the Europeans in areas such as design *sophistication* and engineering integrity, the mood now is sharply different.

Mr Eberhard von Kuenheim, chair*man of BMW, now accuses the Japa*nese industry of "an aggressive policy of conquering markets, creating a scenario of ruinous competition everywhere."

In perhaps the most outspoken attack on the Japanese industry made by a senior German motor industry executive, he attributed the Europeans' problems in the US market "not to the products as such, but rather to the prices of our cars – particularly when other manufacturers dump their products below cost".

German concern is being heightened both by the immediate sales prospects for Europe and by the fact that costs are becoming an acute worry within Germany. While some big markets such as the UK and Spain are starting the process of recovery, their growth is likely to be almost entirely offset by the fizzling out of demand in Germany as the boom generated by unification goes *into reverse.* Germany accounts for 30 per cent of all European sales.

The prospect is of fierce competition for executive car sales in Europe. At the same time, the fast growth – *albeit* from a very small base – that European executive car exporters to Japan had been experiencing has largely gone into reverse. The bursting of the Japanese "bubble" economy last year took new car sales down by 4 per cent.

Part of the problem is that, for example, Mercedes' smallest car, the 190E, sells for roughly the same price as a fully-equipped Lexus in Japan. Cutting costs is perhaps the *single biggest problem facing the* European industry, and Germany's in particular.

Current estimates are that the Japanese industry has a cost advantage of about one third over its German counterpart.

Another form of competition is also emerging. General Motors, the world's biggest car maker, has been undergoing a massive restructuring of plants and products in an attempt to defend its still-shrinking market share. Its Cadillac division is now eyeing Europe for a renewed sales push. Chrysler has just started production of its up-market "minivans", also pitched at the executive sector as an alternative to conventional cars, in Austria. Competition from North America may become an established feature of the European scene by the late 1990s.

Adding to the industry's concerns within Europe is the continuing controversy over differential prices charged by manufacturers within the EC, fuelled initially by consumer group claims that prices in the UK were far higher than some other markets in Europe.

The UK's Monopolies and Mergers Commission and the EC competition Commission have both produced reports on the subject. The MMC found no evidence of systematic profiteering but the EC report found differences, in extreme cases, of up to 40 per cent. Sir Leon Brittan, the competition commissioner, has warned that the industry must "put its house in order".

Overall, the likely effect is to be, if not actual price cuts, a slowing down of the rate of price increases, putting yet more pressure on costs and profitability.

Needless to say, this is a prospect not at all likely to bother both business and private users of executive and luxury cars. The current buyers' market is likely to remain for a very long time to come.

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THE BRITISH MARKET

Review is eagerly awaited

Auctions houses are starting to report a glut of high-mileage executive cars in their compounds

WITHIN the next few weeks, HM Customs and Excise and the Inland Revenue are to publish a consultative document on changes to the car pricing, engine capacity and possibly business mileage bands which currently determine how much tax executives must pay on the private benefit of their company cars.

Unless there has been a big change of heart since the review was first announced in Chancellor Norman Lamont's budget in March, it is expected that both engine capacity bands and the £19,250 and £29,000 thresholds above which individual tax charges rise sharply will be abandoned in favour of a simplified scale related merely to vehicle price.

The review is awaited eagerly by manufacturers and dealers for it is likely to have considerable effect on the type of specification of the executive cars they make and sell. And for business car users, it should lead to considerably greater freedom of choice.

At the upper end of the market such a revised system should greatly benefit companies such as Jaguar, which has only two models below the £29,000 threshold and which has therefore traditionally been severely disadvantaged by the tax scale system.

Abolition of the much more important – at least for the larger manufacturers – £19,250 threshold would free the car companies from having to produce "threshold specials" aimed at just creeping into the lower tax band. It would allow them to create a more coherent range of products, with resultant greater choice for the company car buyers who – at this level of the market – accounts for at least three-quarters of all such cars sold.

Significant as the review is, it represents only one of a number of changes which this year are transforming the landscape of the business car market.

For a start, there is the cut in special car tax, also announced in the budget, to 5 per cent from 10 per cent.

The cut does not mean a straightforward 5 per cent reduction on pre-budget prices, because it is computed on the pre-tax price less the discount allowed to the dealer and nets out at just over 4 per cent. But it still amounts to a worthwhile £1,100 off a £27,000 executive car or more than £3,000 off a Rolls-Royce.

Potentially just as significant, at least for businesses and car-using executives, was a clarification of VAT rules by the Chancellor, who gave an assurance that companies which want to offer employees a cash alternative to a car, and there are signs that a growing number do, will not have to pay VAT on any salary forgone by employees who choose to keep their cars.

Until the clarification, that is exactly what Customs and Excise had been insisting. And the issue is no minor one because, for example, a company running 500 cars but offering employees £3,000 a year cash instead risked landing itself with a VAT bill for nearly £250,000, even if only one employee opted for the cash.

It is the main reason why companies have been frightened away from pursuing cars-for-cash schemes, even though many have begun investigating them because of last year's introduction of National Insurance charges on company cars and higher VAT which, uniquely among business goods, cannot be reclaimed on car purchases.

For car manufacturers already suffering from the steepest UK new car market recession since the Second World War, this is a matter of considerable anxiety. In Britain, executive cars, bought or leased with corporate cash, traditionally have been specified with lots of "extras" and have provided their makers with high profit per unit.

Executives, depending on their status, have tended to be allocated a choice of car within a given price band and, not unnaturally, have sought to have their cars specified as close to their price "ceiling" as possible.

The worry of the car makers is that, given a cash alternative, uncomfortably large numbers of executives might decide that a smaller, cheaper car is adequate for their needs.

The manufacturers already have enough to worry about.

No sooner did they feel mostly exonerated by the Monopolies and Mergers Commission early this year from consumer group charges that UK cars were over-priced than, last month, another report ordered by EC competition commissioner Sir Leon Brittan reached another conclusion:

In extreme cases, it said, UK car prices could be 40 per cent or more above those in continental Europe.

It has suggested that, if the industry wants to keep its system of exclusively franchised dealers, it is time to put its house in order.

The prices controversy had already been rumbling on throughout the recession which has seen UK new car sales plunge from a record 2.3m in 1989 to 1.6m last year and, some industry leaders such as Mr Ian McAllister, Ford of Britain's chairman, fear, a "worst case" 1.5m this year.

Against this highly charged background, there were inevitable pressures for a discounting war. At the executive level, Ford began offering big discounts on its Granada range, and the other big producers hit back in similar vein. The trouble is, very little has worked.

UK business, almost irrespective of sector, has become rather more interested in the problems of survival than in what cars to buy for its executives. With the old argument in favour of executive "perk" cars – that they are a necessary weapon to attract high calibre staff – now just a mocking memory, for many companies the issue has become for how long they can put off buying any replacement cars at all. Suspicions about the whole car pricing debate have simply added to the propensity to "wait and see".

While there is little to relieve the gloom at the moment, by the end of this year the long hiatus could be coming to the rescue of the manufacturers, for the simple reason that tens of thousands of cars normally replaced at two- or three-year intervals are still soldiering on after four years or even longer.

Repair bills have been climbing rapidly – and embarrassing incidents proliferating. As just one example, one executive of a nationally-known UK concern had to cancel a business meeting when, a few hours before, his car failed its MOT test.

Evidence that a wave of replacements cannot be long delayed is also starting to mount. Auctions houses are starting to report a glut of high-mileage executive cars coming through their compounds. According to Mr John Bailey, managing director of Independent Car Auctions: "The market is starting to become swamped with high-mileage executive cars".

Until now, he suggests, the glut has had only a slight impact on their resale values.

But there are now so many, he warns, that they are likely to become difficult to sell.

John Griffiths

THE EUROPEAN MARKET

Catching up fast

SENIOR British executives tempted to move to a continental Europe-based company in the EC's single market next year, but concerned about possible loss of the company car which is among the most hallowed of UK "perks", have rapidly decreasing cause to worry.

Studies by management remuneration groups such as the Monks Partnership and Brussels-based Wyatt Company provide firm evidence that most continental European countries are moving towards British levels of provision, even while UK Chancellors have shown a desire to squeeze such perks out of the remuneration system.

Indeed, at managing director level, the UK now ranks only sixth in the European league for automatic car provision.

Admittedly, that is splitting hairs since 96 per cent of managing directors in Britain get one, according to Monks survey figures. But Britain is nevertheless behind France (97 per cent), Spain (98 per cent) and, most of all Austria and Germany, where Monks found 100 per cent allocation. Even four out of five Swiss managing directors – better able than most to buy their own Mercedes – received either a car or an allowance with which to buy one.

British managing directors contemplating "opting out" of their own company cars as a result of increasing personal taxation on its benefit might not, however, be too impressed at the average size of allowance – $10,238 a year according to Wyatt's statistics, which currently would not cover one year's depreciation on some quite modest executive cars in the depressed UK market.

At director level, Germany and Ireland have moved up to share equal ranking with the UK on 97 per cent provision but, according to Monks' statistics, the gap is narrowing swiftly with countries which, even until fairly recently, expected most directors to buy their own. Even Belgium, once notably miserly towards its directors, now provides cars for two-thirds of directors.

The further down the managerial tree such surveys descend, however, the more the "old" picture of the UK as a particularly benevolent country for car provision does re-establish itself.

At middle manager level, one half of Spanish employees, for example, are offered cars while 96 per cent of their British counterparts – almost the same percentage as managing directors – receive them as a matter of course. On present trends, however, the gap will close significantly over the next two or three years – only just over one third of Spanish managers were receiving cars in the late 1980s.

French middle managers have reason to smile as well. Last year, according to the Monks survey, 54 per cent of middle managers received cars, compared with only 30 per cent two years previously.

The overall hierarchy is a source of particular satisfaction to Audi, the Volkswagen group's executive car arm. The Audi 100 has been "top of the pops" since the late 1980s

The surveys shed some interesting light on some of the cultural differences between countries in terms of the cost and type of cars provided. In Spain, for example, Monks found that the managing director's car is likely to cost at least three times more than that of the sales rep. In egalitarian Sweden, however, the chief executive's car often costs only about one-third more than the salesman's.

The UK is not notably more egalitarian than Spain. Indeed, the Monks study found that the average of £28,000 which British managing directors spent on their cars was the highest of all the countries in the study, although this is explained in part by high purchase taxes – since reduced as a result of the cut in Special Car Tax from 10 per cent to 5 per cent.

Of particular interest to UK businessmen, as they await the conclusions of a government-ordered review of the current structure of company car taxation, might be the extent to which other European countries offer their executives a choice between a car or a cash allowance.

In Britain, according to Wyatt's statistics, only between 3.4 per cent and 4.3 per cent are offered such a choice, irrespective of whether the employee is a rep or the chief executive. At the other extreme, between 57 and 90 per cent of Norwegians, depending on job category, get the choice, as do between 15 and 20 per cent of Germans.

Self-evidently, the choice of car made by Europe's executives is a matter of profound importance to their manufacturers. So what exactly is most popular?

According to a compilation made by the FT's *Jobs Column* from the vehicles most mentioned within the Wyatt research, for all management levels averaged over 17 countries, the league table runs:

1, Audi 100; 2, Ford Scorpio-Granada; 3, BMW 5 Series; 4, Renault 25; 5, Opel Omega (Vauxhall Carlton); 6, Volvo 700 Series; 7, Mercedes 200 Series; 8, Peugeot 405; 9, Renault 21; 10, Ford Sierra.

For chief executives only, the "top five" list reads 1, BMW 5 Series; 2, Audi 100; 3, Volvo 700 Series; 4, Mercedes 200 Series; 5, Saab 9000.

The overall hierarchy is a source of particular satisfaction to Audi, the Volkswagen group's executive car arm. The Audi 100 has been "top of the pops" since the late 1980s.

What has yet to show up in any of the charts is an executive car with a Japanese badge attached to it. But with what started out as a trickle of Japanese executive cars starting to become a flood, it is a moot point for how long such a situation will prevail.

Company Car Report Europe, from Wyatt UK at 21 Tothill St, London SW1H 9LL telephone 071-222 8033, fax 071-222 9182.£510;

Monks Partnership European Company Car Survey 1992, from Monks Partnership, Debden Green, Saffron Walden, Essex CB11 3LX.£150

John Griffiths

EXECUTIVE CARS 3

☐ SPECIALIST MANUFACTURERS

Even prestige marques feel the pinch

THE PAST year has exposed with increasingly severe difficulties facing the smaller, specialist car makers.

In the UK, where new car sales are suffering from one of their steepest post-war recessions, the result has been receivership for some of the smallest names.

These have included sports car makers Reliant and Evante; although, such is the optimism which seems to infect those who come into contact with specialist car-making, that each has subsequently found a buyer and is sputtering back to life.

Even the most prestigious marques, however, are taking a severe battering, with Porsche and Rolls-Royce among the most notable victims.

At the beginning of this month, the Stuttgart manufacturer whose luxury sports cars came to symbolise yuppy aspiration and entrepreneurial achievement in the 1980s, announced that it was making 850 of its workforce redundant. This was on top of 950 announced a few months earlier, bringing the workforce down to around 7,000.

The reason lies in slumping sales figures — to near-catastrophic levels in the US, which was once Porsche's largest single market.

In its current financial year ending next month, Porsche expects to have delivered 22,000 cars worldwide. That may not sound too severe a drop from the 26,000 of 1990-91, but it compares with sales of more than 50,000 in the mid-1980s. The US, where Porsche was finding 30,000 buyers a year in the mid-1980s, last year absorbed fewer than 5,000.

The job-cuts and other economies should lead to DM100m (£34.3m) in operating-cost savings next year, and Porsche should still just make a profit in the current year, according to its chairman, Mr Arno Bohn.

But the first-half profit was a wafer-thin DM2m and, measured by sales, Porsche is getting perilously close to the danger level in terms of viability. Break-even lies only 1,000 units below last year's delivery level.

What has gone wrong?

Mr Bohn's explanation is that, in the US in particular, "the desire to buy luxury goods is not there" and that "there are problems with the social acceptability of cars costing DM100,000 or more."

The explanation is valid as far as it goes. Honda, for example, has seen US sales of its $63,000 NSX mid-engined "supercar" fall by 38 per cent so far this year, and other high-performance sports car sales have also weakened.

Underlying Porsche's problems, however, is competition, intensifying at extraordinary speed, from Japanese rivals for which, only a few years ago, previous Porsche managers regarded with barely-disguised *contempt*.

Mazda, Mitsubishi, Nissan and Honda all have significant rivals to Porsche's models, are introducing new ones at a daunting rate and, backed by their volume car businesses, possess the advantage of being able to charge mostly cheaper prices. In contrast, and despite the 944's facelift, an aura of ageing familiarity hangs over all three of Porsche's current model range.

US buyers have so far have shown relatively muted enthusiasm for Porsche's latest offering, a heavily-revised 944 model, which Porsche regards to be considers sufficiently "different" from the 944 to be redesignated the 968, and which went on sale in the US at the end of last year for $40,000.

The company needs a heavy investment programme in new product and, its critics say, has been too slow and too cautious in coming up with one. Although it still has substantial cash assets, its size leaves it at a financial disadvantage relative to its larger competitors in terms of long-term investment funding.

In the opening months of this year, there were faint signs that the worst of Porsche's problems in the US might be coming to an end. Sales to the end of April were down "only" another 5 per cent, at 1,482, according to *Automotive News* statistics. And the company has been jolted into action on the product front. Plans for a new, up-market four-seater have been shelved. By 1996, a new sports car pitched squarely at Japanese rivals such as the Mazda RX-7 should be on the road.

Strains have been felt throughout the group, not least in management. Mr Bohn himself earlier this year threatened to resign when Porsche's supervisory board initially failed to approve renewal of his contract after it expires at the end of this year - he has since had it renewed for three years. And the long-serving chief executives of Porsche's subsidiaries in both the US and the UK have decided to leave the company in the past year.

Inevitably, speculation has arisen about whether Porsche can retain its independence. Despite offers from Mercedes-Benz and others, Mr Bohn insists that the Porsche and Piech families-controlled company remains not for sale.

At the Crewe headquarters of Rolls-Royce Motor Cars, the strain has been no less intense.

The chairman and chief executive, Mr Peter Ward, and his management team at the UK's most prestigious car company have spent much of the past six months uncertain as to whether Rolls-Royce will remain part of Vickers, the UK engineering group which has owned it for more than a decade, or whether the company will, in the end, be sold.

Certainly, Vickers has tried hard to sell it — to the consternation of die-hard Anglophiles, who feel that Rolls is quintessentially English and that its sale to a probably foreign buyer should not be contemplated. To their relief, Vickers has yet to receive an offer which it regards as high enough, despite discussions with a number of companies including BMW.

The problems at Rolls are similar in type, but not scale or detail, to those at Porsche: a company whose physical size is a lot smaller than its reputation (in a good year, Rolls builds around 3,000 cars), and recession in all its major markets. So in the space of three years Rolls has gone from being the profits flagship of the Vickers groups to a significant loss-maker.

Sales in 1991 plunged 48.3 per cent to 1,723 — the lowest level since 1958 — from the record 3,333 achieved in 1990, dragging Rolls down to a £30m trading loss last year.

Sales this year are expected to be at around the same level, although losses should be cut to £15m or less as a result of extensive job cuts and other savings. Again, though, the worst may just be over. Rolls is cautiously predicting that, by the end of the year, it may be trading at breakeven.

For some of the best-known specialists, at least, survival in a harsh climate is no longer an issue — but only because they have become acclimatised to *life under the ownership of* volume producers. Thus, while Jaguar is still struggling to reverse sales which, worldwide, fell sharply last year and plunged production from nearly 42,000 in 1991 to fewer than 23,000 last year, it is developing major new product plans, including a smaller luxury saloon, under the wing of its owner, Ford.

Aston Martin is able to plan a new "cheaper" sports car — likely still to cost close to £100,000, however — for 1994, thanks to the financial underpinning of 75 per cent ownership by Ford. The car is to be built at a rate of 625 a year, and with its own unique Aston Martin engine; but not at Aston Martin's traditional "home" at Newport Pagnell, Buckinghamshire.

Instead, the company is creating a new subsidiary, Aston Martin Oxford, to oversee the car's birth. It will be *developed at Kidlington*, Oxford, in premises owned by JaguarSport, a 50-50 joint venture company between Jaguar and Mr Tom Walkinshaw's TWR Group, which also operates Jaguar's racing activities.

The NPX will actually be built at JaguarSport's manufacturing plant at Bloxham, Oxfordshire, where a new Jaguar "supercar", the £350,000 XJ220, has just entered production.

JaguarSport is making only 350 XJ220s, and the premises are expected to be devoted entirely to Aston Martin after the last XJ220 comes off the line in two years' time.

Meanwhile, Group Lotus, the UK specialist sports car-maker has cut its workforce by 40 per cent. This followed poor sales of its Elan sports car, output of which was down 58 per cent in this year's first quarter, to 336, after having reached 2,240 for all of 1991. Nevertheless, it can be fairly sure of a long-term future under the ownership of General Motors.

The swallowing up of the industry's "minnows", however, is not an irresistible trend.

TVR, at Blackpool on the UK's north-west coast, has survived since 1954 by making hairy-chested tubular steel and fibreglass sports cars, which require relatively low tooling costs and give a considerable degree of design flexibility. TVR has soldiered on, never making more than a few hundred units a year, mainly because its cars' styling, design and sometimes eccentric standards of finish have proved attractive to only a small coterie of enthusiasts.

Its recent launch of a new model, the Griffith, caused a minor sensation, however. The car was compared favourably, at least in styling terms, with much more prestigious marques. Consequently, TVR is for the first time contemplating production of more than 1,000 cars a year.

It has been left to AC Cars, however, to buck the takeover trend completely. In 1987, with all the volume manufacturers buying up minor nameplates as fast as they could go, Ford bought a 50.96 per cent stake in AC, a Surrey-based specialist sports car company, for £1.3m.

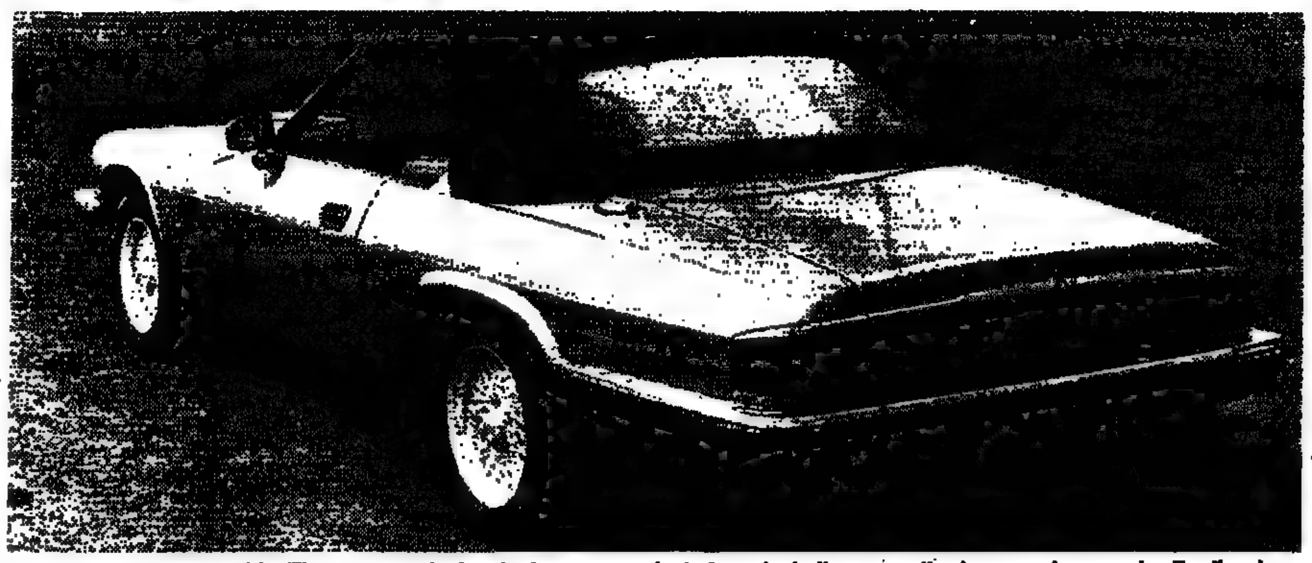
Ford bought the stake mainly because of AC's production of the Cobra, a major image builder for Ford in the 1960s, when it sold the Cobra through its North American dealer network. Now Ford is *selling its holding, for an* undisclosed sum, back to Mr Brian Angliss, AC Cars' managing director, who also controls Autokraft, a private company which holds the minority stake in AC Cars.

Both sides say the sale was amicable, and Ford will continue to help AC to produce a new, low-volume sports car while retaining the right to the Cobra name in North America. Behind the scenes, however, lies the old culture clash between corporate and individualist.

Mr Angliss now intends to find a new partner to put the car into production at volumes of 500-600 a year. Resurrecting another old AC name, it is to be called the Ace. Whether Mr Angliss has played one, only time will tell.

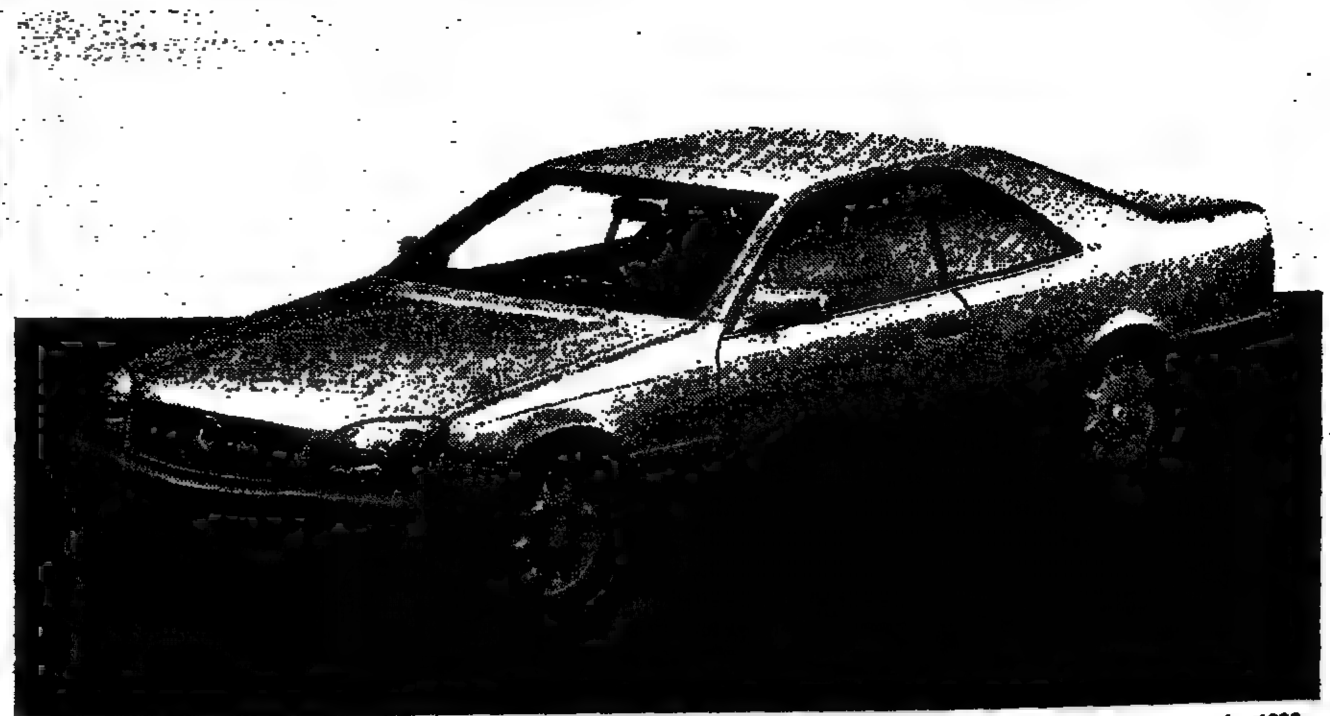
John Griffiths

Rolls-Royce Silver Spirit II: In a good year, the company builds a total of 3,000 cars. Sales in 1991 plunged 48.3 per cent to 1,723



Jaguar XJS 4.0 Convertible: The company is developing new product plans, including a smaller luxury saloon, under Ford's wing

Mercedes-Benz 300SE: The "Made in Germany" label is no longer enough. Rivals have been using every sales stunt in the book



Mercedes-Benz 600SEC: The new plant at Rastatt, only the company's third in the country, will output 90,000 cars a year by 1996

□ MERCEDES-BENZ

New car plant will be test-bed for 'lean production'

THE label "Made in Germany" which has served for so long as the prime marketing tool of the federal republic's quality car makers, is no longer enough. Recession everywhere, luxury taxes in the US, and the opposition using every sales stunt in the book have hit them hard.

Mr Arno Bohn, head of hard-pressed Porsche, goggles as he tells of a US Rolls-Royce dealer giving away a mid-range Mercedes with every Silver Cloud.

Mr Werner Niefer, Mercedes-Benz chief, mutters *darkly* about dumping and "strategic pricing" capers which lead to

Mercedes-Benz has set about improving its competitive condition through its own efforts

Toyota's selling its Lexus in the US for less than $40,000 and for more than $55,000 in Germany.

Meanwhile, German makers are getting their act together. Mercedes acknowledges that Japanese manufacturers on average have a 35 per cent production cost advantage over their German competitors. About 10 per cent of that is accounted for by relatively low capital costs in Japan and the extraordinarily long working hours the competition squeezes out of its workforce.

While social evolution and globalisation of capital markets work at eroding these advantages, Mercedes-Benz has set about improving its competitive condition through its own efforts.

The most obvious signs of emergent determination to cut the fat have appeared in the past few months in announcements of huge job cuts among all German motor manufacturers. The half-way mark in Mercedes' plan to slash its workforce by 20,000 will be reached by the end of this year.

Rastatt: Rotary cradles provide excellent access to the underside of vehicles, enabling easier installation of hydraulic lines

The aim is clear. As Mr Niefer and his colleagues have stated: additional wage costs, which exceed improvements in productivity, will not be passed on to customers. They will be paid for indirectly by the German workforce. While forced redundancies are almost unknown in Germany, job cuts will be achieved by non-replacement of people moving on and "social measures" including early retirement and training for other jobs.

Component suppliers will in future work far more closely with the Mercedes research and development teams

Accordingly, this year's 5.8 per cent pay rise – adding an extra DM600m to Mercedes' costs – will lead to cuts of between 8,000 and 10,000 jobs by the turn of the year.

There are already rising expectations in industry and government that the narrow squeak in this year's engineering pay round – a damaging national strike was averted at the last minute – and the 23-month duration of the deal, may mark a turning point and a return to the traditional German pattern of "rational" pay settlements.

The implementation of recommendations from leading management consultancies that the auto, engineering and electronics industries should shed almost 400,000 jobs in the next few years, already widely underway, should underline the message to the powerful IG Metall union.

Meanwhile, Mercedes is adding capacity. Its new car plant at Rastatt, close to the border between Baden-Württemberg and Alsace, will steadily increase output to 90,000 cars a year by 1996, raising group capacity from 580,000 today.

Niefer: mutters darkly about 'strategic pricing' capers

The works, only the company's third in the country, appears to be a demonstration of faith in the old "Made in Germany" principle.

It might also be considered a remarkable development in the light of constant claims from Mr Edzard Reuter, chairman of the Mercedes parent, Daimler-Benz, that domestic production costs are killing off Germany's attractions as a manufacturing base. But it is much more than a factory: it is a test bed for the company's future manufacturing strategy.

Especially in its early days, Rastatt will function as a proving site for new techniques in "lean production", logistics and manpower management which will subsequently be introduced into the group's other established works at nearby Sindelfingen and Bremen in the north.

The lessons will also be passed back to component suppliers, which will in future work far more closely with the Mercedes research and development teams. One initial short-term aim is to reduce the number of parts which have to be handled and fitted at the works. Suppliers will be required to supply complete pre-assemblies built and tested precisely to Mercedes standards.

The clearest clues to what is afoot in Rastatt are provided by the absence of anything resembling a conventional production line and the presence of teams of 10 to 15 workers clustered around custom-built cradles swinging body shells to and fro giving them easy access to bolt holes and fixing points.

This is "group working" German-style. Not, Mr Niefer stressed, copied from Japan or Scandinavia, but developed specially to suit domestic conditions.

Teams of eight to 10 are given responsibility for each stage of assembly. Members elect their own spokesperson, organise their own work as they choose, manage their own logistics, swap jobs when they like, mend their own tools and equipment, fix holiday rotas and resolve problems as they go along.

Rastatt: Height-adjustable work platforms for pre-assembly

A quality card, marked with each worker's individual stamp and signed off with a group stamp, travels through all stages with the car. At the end of processing, the vehicle will typically roll directly into a loading bay or storage park.

Each day only one or two will be given an overall quality check. Just as Rastatt has no conventional assembly line, it also has no bottleneck bay at the end of the line – typical of most German plants – where cars are checked over and defects corrected.

Quality, Mr Niefer said, is built in. So, too, is economy. While 10 per cent of the 45,000 Sindelfingen workforce is occupied solely with quality control and end-of-line repairs, at Rastatt the line worker and quality controller are one and the same person.

Christopher Parkes

□ CADILLAC

Big reshuffle is designed to improve company efficiency

MR John Grettenberger, the head of General Motors' Cadillac luxury car division, has a hit on his hands.

The new 1922 Cadillac Seville, GM's answer to the threat posed by cars such as Germany's Mercedes and Japan's Lexus in the luxury market, has won over not only enthusiastic praise in the US motoring press, but also customers in the showrooms.

The Seville, and the new Cadillac Eldorado, introduced at the same time last autumn, have given a significant boost to the division's US car sales, which were up some 7 per cent over 1991 in the first five months of this year in an admittedly growing market.

The company's market share rose by a modest one tenth of a point.

GM has been losing billions of dollars on its North American operations

Perhaps more important, the company has begun attracting back younger buyers, whom it needs to take the place of its generally elderly customers.

Mr Grettenberger says the *Seville has also attracted* attention in Europe where Cadillac's sales have risen from just 291 vehicles in the 1991 model year to almost 1,500 in 1992.

This is a much-needed morale booster for GM which has been losing billions of dollars on its North American operations, prompting a revolt by non-executive directors on its board last April.

The company is now in the throes of a huge upheaval designed to slim it down and make it more efficient.

Cadillac's success with the Seville demonstrates what GM is capable of in good design and engineering when it pulls all the stops out – although the group's problems are also underlined by the fact that the Seville was a year late in hitting the market.

"We decided that we were *not going to bring it to market* until it was absolutely correct and that required adjustments to our ideas," says Mr Grettenberger.

The name Cadillac used to define the American luxury car. But in the 1980s, along with the rest of GM, the division gained a reputation for poor quality and tired design.

The past few years, however, have seen a sharp reversal of those trends: the *Seville* has picked up numerous design awards while Cadillac's reputation for quality has steadily improved.

J. D. Powers and Associates, the car market research group, now ranks Cadillac among the leading US vehicle vendors for customer satisfaction.

Much of this is due to the division's adoption of the Total Quality Management (TQM) practices pioneered by Japanese companies, which began *to become popular* in the US during the 1980s.

TQM stresses the need to ensure top quality in all an organisation's operations, with particularly *emphasis on*

Into the future: the 1993 Cadillac Allanté. Cadillac has begun attracting back younger buyers, whom it needs to take the place of its generally elderly customers

customer satisfaction and worker participation.

Cadillac's efforts resulted in it winning the prestigious Baldrige award, a national competition for TQM, although it only did so at the second attempt.

The group's attention to customer satisfaction played a role in the extensive market research that went into the design *and styling* of the Seville and Eldorado.

The proposed Cadillac vehicles, together with domestic and foreign rivals, were shown to some 8,000 people across the US who intended to buy luxury cars.

"We made a special effort to insure we had imported luxury cars there as well," says Mr Grettenberger.

One of the main messages was that Cadillac needed to improve the interior design of its cars. Younger buyers, in particular, disliked a lot of the ornamentation traditional on its models.

At the same time, Mr Grettenberger needed to maintain the distinctively American feel of its cars:

"Cadillac is clearly a North American vehicle and anything we do that is not true to that would be suspect."

In the hope of attracting European buyers, the company has now begun product clinics there for vehicles it intends to introduce in 1995 and 1996. "I *think we're starting* to get grass-root voices and customer input from the Continent and this has good applications for the Far East as well," says Mr Grettenberger.

Cadillac is sufficiently encouraged by its *progress in* Europe to have started reactivating its largely dormant *network of dealers*.

The message from them, says Mr Grettenberger is: "Address the performance, handling and efficiency demands of the European market but remain American. Don't try to be a BMW, a Mercedes, in terms of overall style."

With Cadillac *offering no* rebates (other than a little bit of leasing support) on the $38,000 Sevilles, Mr Grettenberger says the division is making "very good profits."

That said, Cadillac's Hamtramck, Michigan plant is operating far below its potential output, reflecting the huge overcapacity that afflicts GM throughout the group.

Nevertheless, Mr Grettenberger believes Cadillac will remain largely immune from the rationalisation now shaking up the rest of the group.

He also believes that the luxury car market is set to grow, but the competition will become even more ferocious because "its still an area of the *industry* where you can get a good return for your investment," he says.

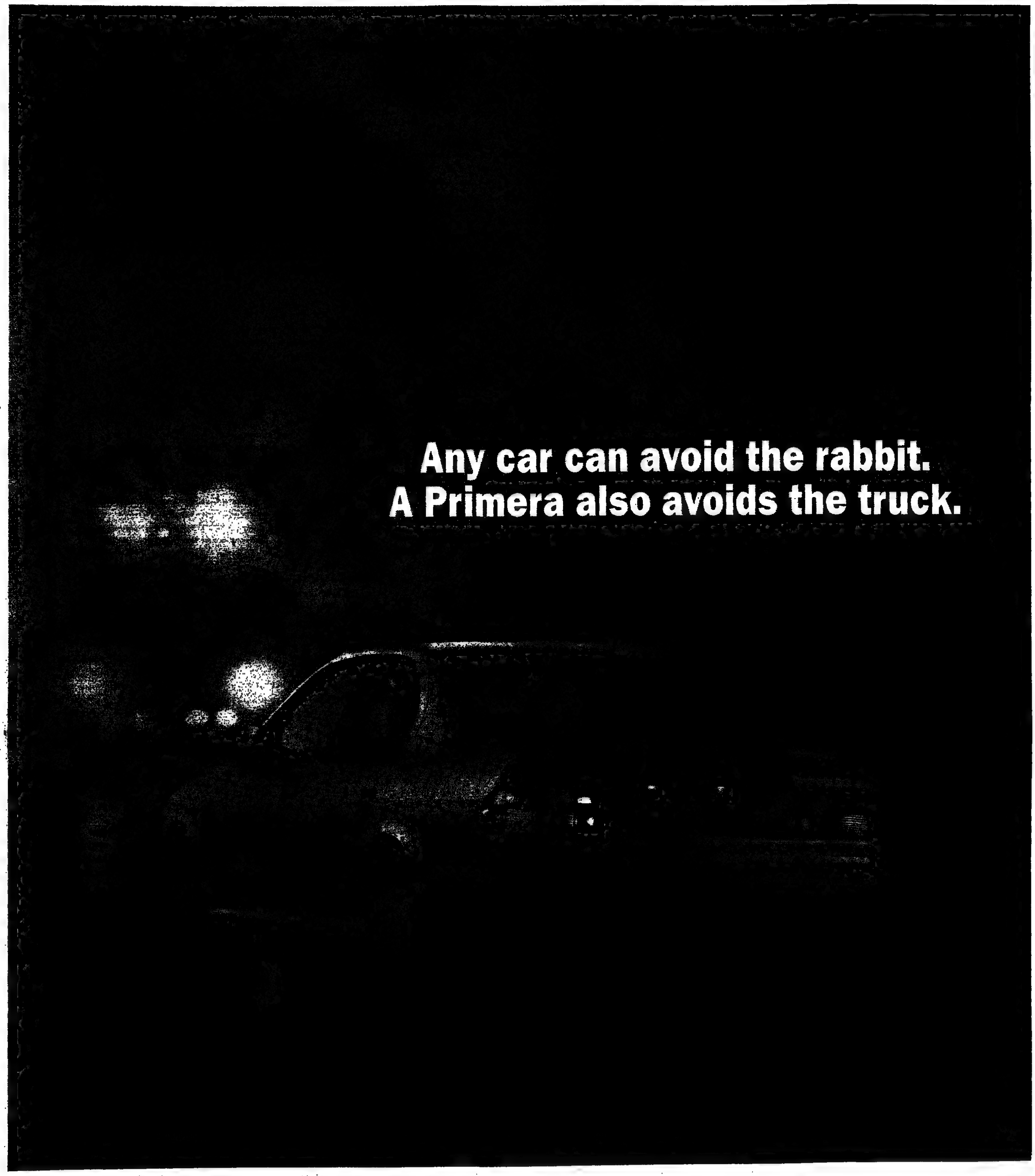
Cadillac's Hamtramck, Michigan, plant is operating far below its potential output

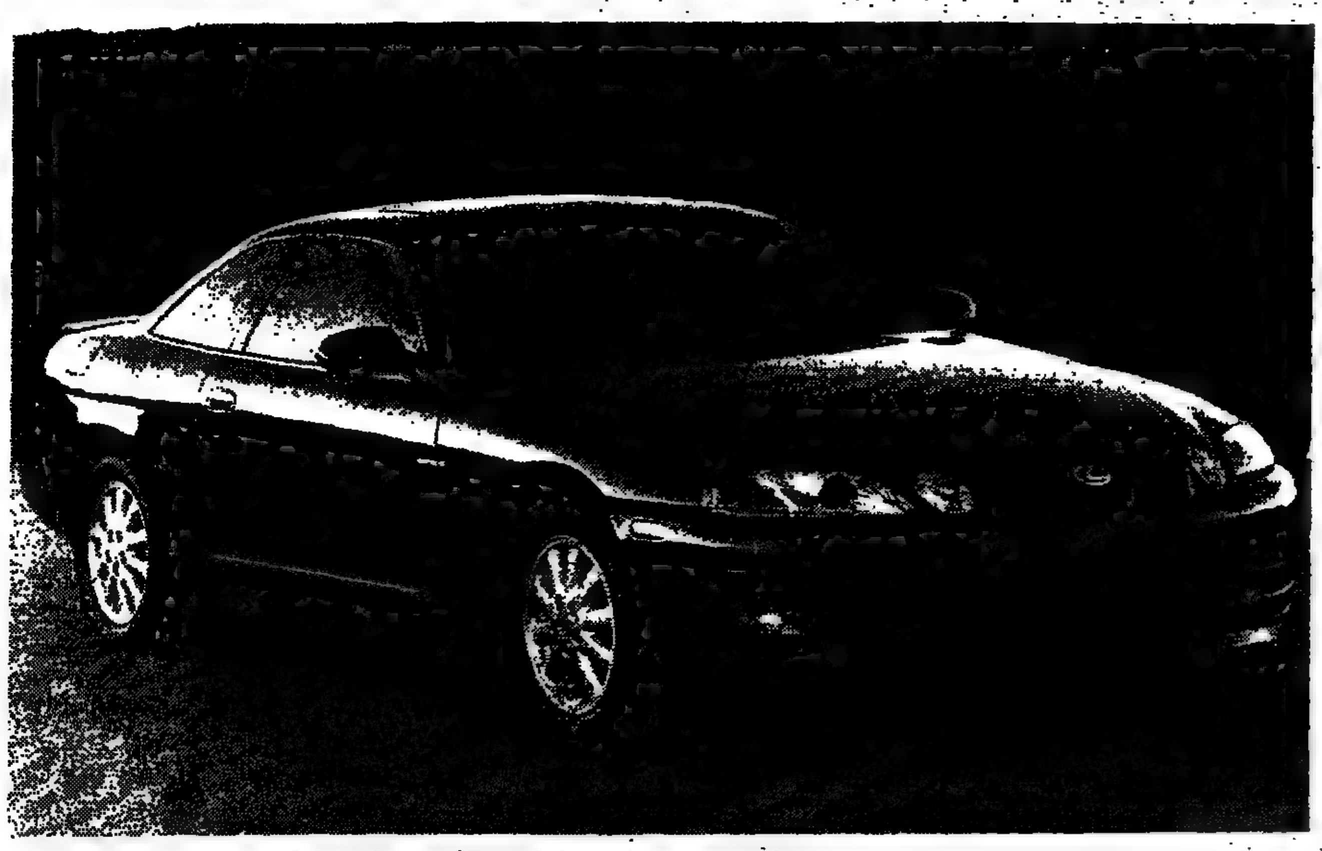
"The demands of the customer are going to continually increase," says Mr Grettenberger.

He believes *the ability* to get repeat business will depend crucially on "maintaining high levels of satisfaction throughout the ownership experience."

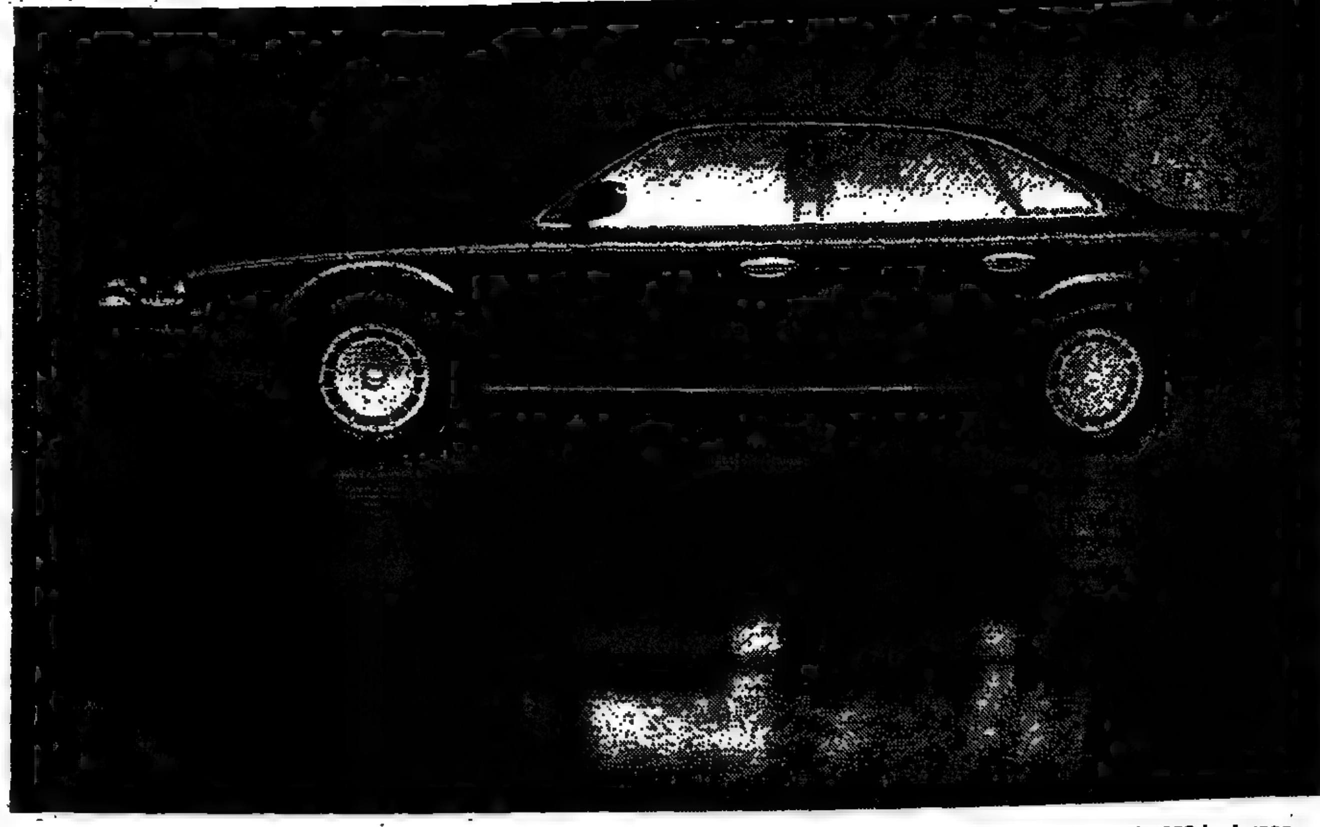
"If you want to be a success," says the Cadillac chief, "you had better be sure that you're not just meeting customers' *expectations*, but exceeding them."

Martin Dickson


Any car can avoid the rabbit.
A Primera also avoids the truck.



Lexus SC 400 sports coupé: Sales volumes of Toyota's Lexus franchise rose by 12.1 per cent to 71,206, outselling German rivals



Infiniti Q45: Flagship of Nissan's four-model Infiniti range. The franchise increased US sales by 45.6 per cent to 34,890 last year

☐ THE JAPANESE CHALLENGE

Skirmishes in Europe; pitched battles in the US

IT was only days after Peugeot and Rover, the European car makers, decided to pull out of the US car market last year that Mazda, Japan's fourth-largest car manufacturer, announced it was creating a separate luxury car franchise in the US.

Mazda is following in the tracks of Honda, Toyota and Nissan. The contrast between European retrenchment and Japanese expansion in the US underlines the startling progress Japanese carmakers have made in the higher reaches of the American car market since Toyota and Nissan launched their luxury franchises in autumn 1989.

In some months last year, Toyota's Lexus and Nissan's Infiniti franchises both outsold BMW and Mercedes-Benz in the US.

Infiniti and Lexus came first and second in the latest Initial Quality Study published this month by J. D. Power, one of the most authoritative US analysts of quality and customer satisfaction in the world car industry.

The Japanese car makers are yet to enter with force into the luxury and executive car market in Europe, but there are already strong signs that the Japanese challenge will move to Europe during the 1990s. The European car makers know the scale of the problems they are facing because the luxury-executive car battle with the Japanese makers has already been joined in earnest for at least two years in the US.

As the Japanese car makers develop their local production presence in Europe – as they have done in the US in the past decade – they will be able to make some of their main volume cars in Europe and begin importing more executive and luxury cars under their import quotas. By the end of this year Nissan, Toyota and Honda will all be producing cars at their own plants in the UK, while Mitsubishi will follow by 1994-95 at its joint venture plant in the Netherlands.

This year, the American luxury car market has brightened for several of the players as the US struggles out of recession

To date, their presence in the European executive-luxury market has amounted to only preliminary skirmishes. Toyota has shied away as yet from direct confrontation with BMW, Mercedes-Benz and Jaguar in Europe and is only selling limited volumes of its flagship Lexus LS400 luxury saloon. Nissan is not yet bringing its current generation Infiniti cars to Europe.

Mazda is already testing the water, however, with the launch of its Xedos 6 sports saloon, a car which it is pitching squarely against BMW. It is clear that Mazda has ambitions to establish a much broader range of sporty executive and luxury cars in the European market during the 1990s.

The pitched battle is in the US, however.

BMW's overall sales in the US last year fell by 16.2 per cent to 53,343, while Mercedes-Benz sales plunged by 24.9 per cent to 58,868. In particular segments, the damage was far greater – sales of BMW's top-of-the-range 7-Series fell by 47.3 per cent to 5,506. Porsche sales fell by 52.0 per cent. Jaguar suffered a drop in sales in the US last year of 49.9 per cent, while Audi sales plunged by 41.8 per cent.

The local American competitors in the US luxury car market fared little better last year with General Motors' Cadillac sales dropping by 17.4 per cent, and Ford's Lincoln marque suffering a drop of 22.9 per cent.

While their rivals were losing sales volume, the Japanese were winning additional market share. Sales volumes of Toyota's Lexus franchise rose by 12.1 per cent to 71,206, outselling its prestigious German rivals, while Honda's longer-established Acura franchise also increased sales by 3.8 per cent.

Nissan's Infiniti franchise was the star performer, however. It started much more slowly than Lexus after the autumn 1989 launch but last year it began to close the gap, increasing its sales by 45.6 per cent to 34,890.

Lexus and Infiniti have both been helped by the launch of new models, and Infiniti has now expanded to a four-model range with the G20, the recently-introduced J30, the M30 and the flagship Q45 luxury saloon. In the first four months of 1992 alone, Lexus has sold 8,132 units of its recently-launched SC400-300 coupé.

This year, the US luxury car market has brightened for several of the players as the US struggles out of recession. Mercedes-Benz has increased its US sales by 18 per cent in the first five months of 1992 while BMW has achieved a 23.8 per cent increase and Jaguar a rise of 12.6 per cent. Cadillac sales are 5.5 per cent higher than a year ago, although Lincoln's fortunes continue to decline sharply with a drop of 18.4 per cent.

The Japanese luxury car players are not infallible in the US and Acura has begun to lose ground this year with a drop of 11 per cent.

Lexus and Infiniti are both still gaining on their rivals, however, with Lexus boosting its sales in the first five months by 72.4 per cent and Infiniti achieving an increase of 38.9 per cent.

Mazda is planning to enter the US luxury car market with a separate sales channel, to be called Amati, in spring 1994. Amati's initial product line-up will be two luxury saloons and the Japanese carmaker aims to sell about 20,000 cars under the new marque in its first year. It is likely that a sporting coupé will be added later.

Mazda has been studying an entry into the US luxury car market for two years with its Pegasus task-force and has concluded that the prospects are too mouth-watering to be ignored. It says the number of affluent households in the US with an income of at least $75,000 a year is increasing from 2m in 1988 to 2.5m in 1995.

Like Peugeot, Rover faces a mighty challenge from the Japanese in the UK and in continental Europe during the 1990s

The Amati cars are to be built at a newly-constructed manufacturing plant in Hofu, Japan, dedicated to producing luxury vehicles.

The Amati operation is to be a separate division of the Japanese manufacturer's US subsidiary, Mazda Motor of America, with its headquarters in Irvine, California. A number of regional offices are also to be set up.

"Mazda intends to become a significant competitor in the luxury car market," says Mr Keijo Asano, senior managing director of the parent Mazda Motor Corporation and chairman of Mazda Motor of America.

While Mazda is enthusiastic about the challenge and the potential rewards offered by the US luxury car market, some of its weaker European rivals have decided that the strain of competing as marginal players in the world's most fiercely contested arena can no longer be supported.

Rover's decision to stop exporting its Rover 800 Sterling range to the US came after continuing heavy losses and dwindling US sales. Ever since the company re-entered the US market under the Sterling brand-name in 1987, it was dogged by quality problems and was increasingly burdened by excessive stocks of old models.

Rover has maintained its separate Range Rover of North America operation to market luxury four-wheel drive leisure vehicles.

Like Peugeot, Rover faces a mighty challenge from the Japanese in the UK and in continental Europe during the 1990s, and it could no longer afford prestigious but very costly battles in the US.

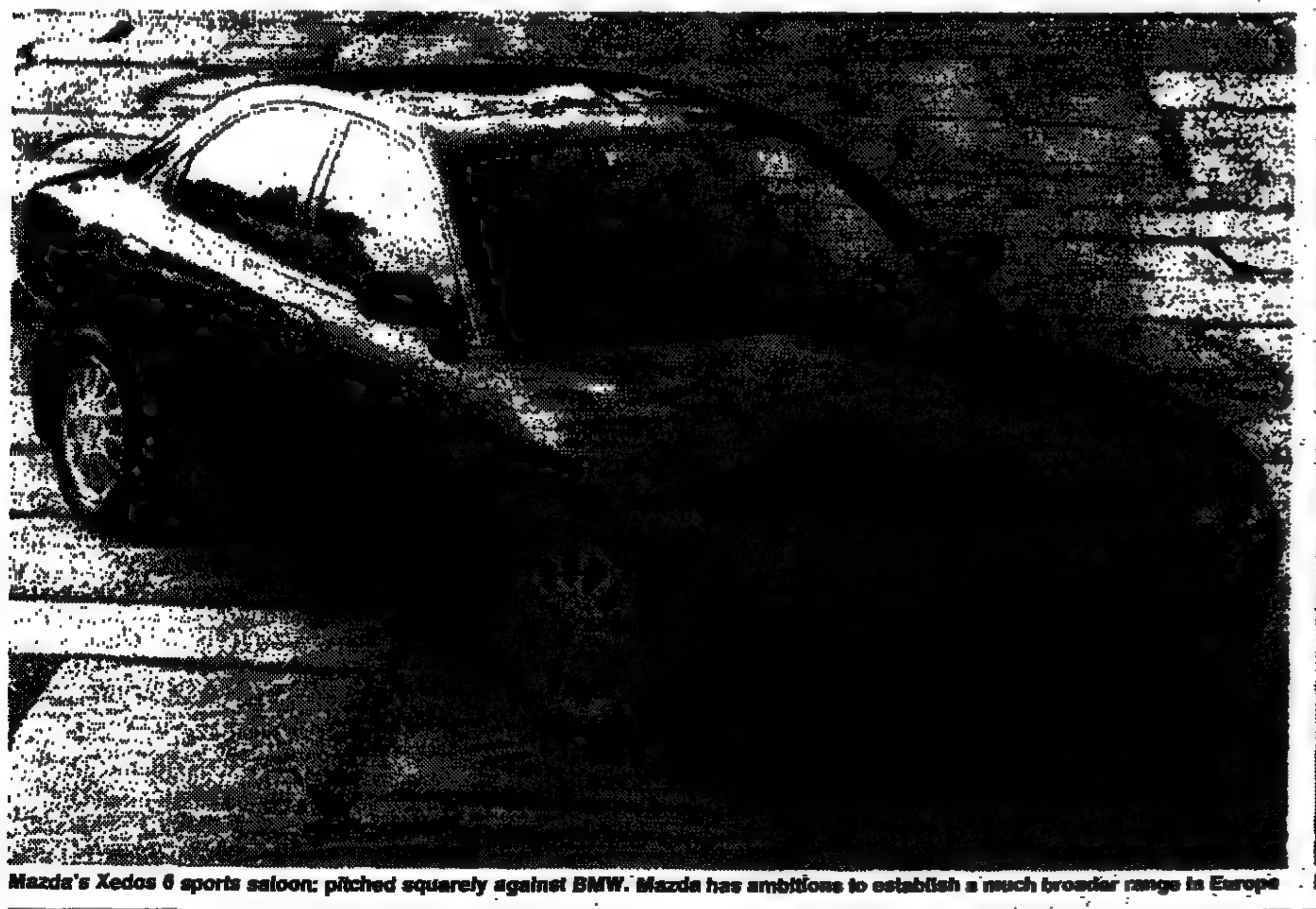
The withdrawals of Peugeot and Rover from the US mean they will no longer be exposed to the rigours and disciplines imposed by the US market, however.

According to Mr Carl Hahn, management board chairman of Volkswagen, the biggest European car maker which has struggled in America in recent years – with both its VW and Audi brands – "The US market is important in particular because its sets the benchmark for competition in the world market, and also because it shapes social demands on the car, in exhaust emissions for example.

"We simply cannot afford to give up either the opportunities offered by the US market or the learning processes and experience it imposes."

The Japanese challenge in America is still growing and the lessons learned there can be brought to bear at any time in Europe.

Kevin Done



Mazda's Xedos 6 sports saloon: pitched squarely against BMW. Mazda has ambitions to establish a much broader range in Europe

Mazda 929 sedan: A study revealed mouthwatering prospects for entry in the US luxury car market with a seperate sales channel

☐ TOYOTA and HONDA

Domestic luxury car sales accelerate

WHEN Japanese domestic vehicle registrations went into reverse last year for the first time since 1984, luxury cars were the only market segment to buck the trend, with sales up an impressive 42 per cent.

It therefore comes as no surprise that the nation's naturally competitive car industry executives are stepping on the gas to overtake one another in this lucrative and fast-growing market.

To do so, vehicle designers and marketing officials must steer towards luxury car buyers whose profiles are in some respects significantly different from those in Europe and North America.

"The content of the Japanese market is very different," says Mr Junzo Shimizu, deputy general manager of overseas planning for Toyota.

"In the American luxury auto market you're talking mostly about private cars. In particular, lately there have been a lot of baby boomers and what are called yuppies or dinkies (double income, no kids). These are often relatively wealthy people in their mid-40s.

"In contrast, the Japanese luxury car market is a strange one, like no other in the world. The main group of buyers are individualistic corporate presidents, or private business owners. There is also no system in which large company employees are provided with (self-driven) cars."

Mr Shimizu estimates that owners of small companies comprise 50-60 per cent of the Japanese luxury car market, individuals 30-40 per cent and large companies less than 10 per cent. This contrasts sharply both with corporations' small portion of luxury car sales in the US and their roughly 80 per cent share in Europe, he says.

Meanwhile, the emergence of a well-heeled class of owner-managers has been the critical fuel for the recent acceleration of domestic luxury car sales, says Mr Hiroo Watanabe, managing director of Honda's research and development centre in Wako, where the number three Japanese auto maker conducts product planning, styling and other design work.

"The corporate market has changed a great deal in the past five or 10 years. In the past, company cars were chauffeur-driven with priority given to the rear seat. But lately, with owners driving themselves around, the front seat is equally emphasised," he says.

Increasingly affluent salaried employees have been buying Honda's relatively small luxury cars

The importance of this market is not missed by foreign competitors. For example, General Motors of the US has recently run advertisements in local newspapers showing its Buick Park Avenue and headlined simply: "Company image."

Increasingly affluent salaried employees also have been buying up a significant share of Honda's range of relatively small luxury cars, Mr Watanabe adds.

"The average buyers are fairly young. Many are in their thirties and some in their late twenties. There is also quite a number of salarymen (salaried workers), which wasn't the case in the past."

Just how rapidly the market will grow over the next few years is open to question. Economic difficulties are leaving many target customer groups feeling far less affluent than in recent years.

"During the bubble economy era, people invested in stocks and land, got a lot of money and bought expensive cars. But now the reverse reaction is rather severe and I'd say growth is likely [illegible]," says Mr Shimizu.

"We'll be pleased if sales increase, but in the near future I don't think there will be a large rise."

He also describes the rapid sales gains for cars with engines of 2,000cc or over – called three-number vehicles in Japan due to their license plate designation – as a one-time response to a dramatic tax cut two years ago.

Over the longer term, both officials said they expected the market for three-number cars to increase steadily. That is not to say the ratio to total car sales will necessarily match North American standards. For one thing, the post-war American baby boom involved a decade of high birth rates, which are now translating into showrooms filled with affluent middle-aged car buyers, notes Mr Shimizu. In Japan, birth rates jumped for a far shorter period, he says.

Another impediment to dramatic increases is the high dependence of luxury car sales on drivers in leading urban areas. They are especially plagued by clogged roads, expensive parking and market saturation. Nationally, the mid-range Corolla leads Toyota sales, while in Tokyo the luxury Mark II and Crown models top the list, Mr Shimizu notes.

The luxury vehicles in domestic showrooms are money machines, thanks to Japan's *gadget-loving drivers*

Fortunately for car makers, the luxury vehicles that do roll out of domestic showrooms are money machines, thanks to the willingness of Japan's gadget-loving drivers to pay up for lucrative options.

"Americans look for value while Japanese customers have more of an attitude that anything is okay," says Mr Shimizu.

How far does Japanese drivers' willingness to pay for the latest high-tech gadgets go? According to Mr Shimizu, one indication is the 20 per cent of Toyota's top-of-the-line Celsior models, known as the Lexus abroad, that leave showrooms with satellite sensor navigation systems costing the equivalent of $5,000 – an option not even available in the US.

Overseas, luxury cars are also highly profitable for car manufacturers, which has prompted the three Japanese leaders to set up separate subsidiaries with distinct brand images in North America: Toyota owns Lexus, Nissan the Infiniti line and Honda markets its high-end vehicles as Accura.

The Toyota and Honda officials said their companies were not seeking under export quotas to the EC to replace large shares of lower priced cars with luxury models or set up independent sales arms as they have in the US.

"Toyota is a volume manufacturer, unlike Mercedes Benz and BMW, so we are not looking to increase luxury car sales while those for regular cars decrease," says Mr. Shimizu.

In fact, Toyota sold just 2,100 Lexus cars in the EC last year, compared to 38,000 in the US and 32,900 at home, which helps explain why it is still operating like an upstart in the luxury market.

"We offer many options in the US. But in Europe we sell so few (luxury) cars that we equip them with what would be considered close to the full range of options in America," the Toyota executive says.

Neil Weinberg

SPEED LIMITS AND THE AUTOBAHNS

Free-for-all is over

IT was July 19, 1986, on the A5 autobahn between Frankfurt and Kassel. A Porsche 911 was flying up the outside lane at 180 kph when a red BMW swerved out of the central lane into its path.

What happened next may well come to be seen as the deciding moment in the lingering sacrifice of one of Germany's most sacred cows: the right to drive at speeds without limit on the open roads.

The Porsche driver slammed on his brakes, skidded, and crashed into a car and caravan in the slow lane. The caravan broke free and collided into a stationary Opel Kadett on the hard shoulder. Both occupants of the Opel were injured.

The red BMW was never traced, so the injured parties decided to sue the Porsche driver for damages. Last March, in court number six of the Federal Supreme Court in Karlsruhe, the judge decided they were right. Because the Porsche driver was not observing the "recommended maximum speed" of 130 kph, he was partly liable for damages, he ruled.

"The free-for-all on the roads is over," the newspapers declared. "130 kph has come through the back door."

The roads lobby refused to be moved.

Mr Günther Krause, the Minister of Transport, insisted that "a general speed limit on the autobahns is not necessary."

A spokesman for Mercedes-Benz declared: "The case has no effect on the speed limit."

But few others would agree. Mr Gerhard Schröder, prime minister of the state of Lower Saxony, criss-crossed by main transit routes, said: "The time of unrestricted, reckless driving on Germany's roads is over."

The lack of a speed limit on Germany's open roads – it is the last member state of the European Community without one – has causes which lie buried somewhere between a national machismo for aggressive driving, the elevation of the motor car, and above all the highly-tuned varieties, to the ultimate status symbol, and the lobbying power of the mighty motor industry.

Against all the evidence advanced by neighbouring states, the German government refuses to accept that speed limits would improve road safety, or reduce atmospheric pollution.

The opposition Social Democratic Party (SPD), as well as the Greens, have stepped up their campaigning for a change. Mr Klaus Lennartz, deputy environment spokesman for the SPD in parliament, cites opinion polls showing that 71 per cent of the population is now in favour of a speed limit.

In an urgent appeal to Chancellor Helmut Kohl last February, Mr Lennartz called for his personal support to introduce a general limit. He cited steadily rising accident tolls on the autobahns (as opposed to all German roads) since 1985, including the numbers fatally injured.

He quoted evidence to show that noxious exhaust emissions – even with German catalytic converters – increase at an exponential rate with faster speeds. And he said that although only 1.4 per cent of the German road network was actually without a speed limit, that same tiny proportion carries 30 per cent of all traffic movements, which consume an equivalent proportion of overall petrol use.

The chancellor's office replied to the letter only three months later – and two months after the Karlsruhe decision. Mr Bernd Schmidbauer, minister of state, said that the government "does not consider that rigid speed limits are an appropriate means of improving road safety."

He said that the cause of most accidents was not the absolute speed of the vehicles involved, but the fact that they were travelling at "a speed unsuited to the prevailing traffic conditions."

He said that the evidence available to the government did not suggest that the introduction of a maximum speed limit of, say, 130 kph would have "any significant effect" in reducing energy consumption, and therefore no appreciable effect in reducing noxious exhaust emissions.

The introduction of modern technology would be more important in improving road safety, he said – a clear reflection of the arguments of the motor industry. The car manufacturers maintain that high performance German cars such as Porsches, BMWs and Mercedes would not be so well developed – or sell so well on the world market – if there was not the demand generated by the free-wheeling German motorways.

The latest eruption in an increasingly anguished debate is the suggestion that the European Commission will soon be able to force Germany to toe the speed-limited European line. Mr Karel van Miert, the transport commissioner in Brussels, denies any such intention. But the threat has already aroused a backlash.

In the present climate of resentment at excessive Brussels' "interference" in national preserves, Mr van Miert's caution is likely to continue. The debate in Germany will therefore probably be decided in the confrontation between the government, the motor industry, and the courts, with steadily rising pressure from the environmentalists.

At the last meeting of Germany's annual traffic courts' assembly, Mr Roman Herzog, president of the constitutional court, the country's ultimate legal authority, spoke out in favour of a maximum speed limit "if it is not fixed too low. A speed of 130 kph is constitutionally OK." But he also warned that a speed limit which was not enforced would do more harm than good.

The legal argument is that German traffic regulations say that whatever the speed limit, drivers must be "constantly in control" of their vehicles.

It also says that they must drive at a speed "appropriate" to traffic conditions. And it says that a driver can only avoid damages for an "unavoidable" accident – defined as one which an ideal driver, travelling at a reasonable speed, would have been able to avoid.

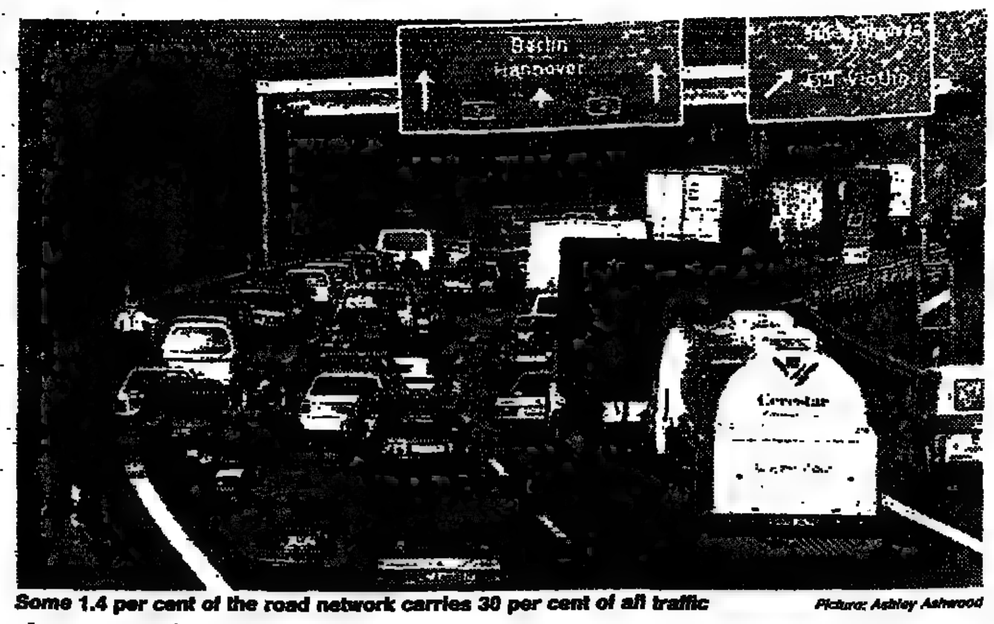
Mr Hannskarl Salger, president of the traffic courts, believes that 170-180 kph is probably the "sound barrier" of controllability for both driver and vehicle.

The overwhelming body of legal opinion is now on the side of considering the speed of vehicles in an accident as a clear contributory factor for damages.

That means that whatever the government and the roads lobby may or may not decide, the chances are that German road hogs will now have to start paying a stiff price for their speeding.

And that is why the sorry story on the A5 outside Frankfurt back in 1986 may be seen as the *coup de grace* for free speeding on the autobahns.

Quentin Peel



Some 1.4 per cent of the road network carries 30 per cent of all traffic Picture: Ashley Ashwood

Mercedes expects standstill

MERCEDES, balancing short-term expectations of a revival in export markets this year with a 9 per cent fall in domestic new car registrations, expects its passenger car business to stand still during 1992.

And no-one is prepared to make forecasts over a longer term.

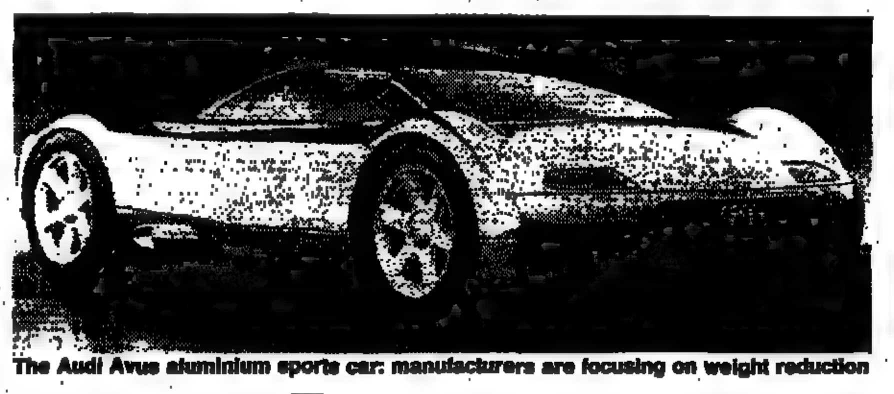
The Japanese quality motor market remains unstable, the rest of western Europe shows faint signs of recovery, and the US a modest reversal of the catastrophic slump.

Mercedes group sales in the US rose 18 per cent in the first four months of this year while the overall market rose by only 2 per cent.

"In spite of this, there is no reason for excessive euphoria," said Mr Werner Niefer, group president.

Mercedes sales last year fell 25 per cent as the US market reached its lowest level since 1982, and the current upturn marked no more than a gradual return to normal.

"Unfortunately," Mr Niefer added. "We cannot expect help from the Japanese market either."



The Audi Avus aluminium sports car: manufacturers are focusing on weight reduction

INNOVATION

Fresh demands on designers

The designer of the executive car finds himself increasingly surrounded by pressures and constraints. In order to remain competitive, it is essential that he strives to make his next car even more comfortable, better equipped and safer.

For the first time, however, he is also under pressure to make it smaller and lighter.

Audi's chairman has already said that the recently announced new Audi 80 will be the last of that company's cars to be heavier than its predecessor.

Mercedes managers admit that for all its apparent sales success, the current S-class would have been smaller and lighter if they had begun work on it 18 months later.

Two factors are at work here. One is sheer social pressure. In a few years, one senior car designer has suggested, it will be about as socially acceptable to drive a large, heavy, thirsty car as it already is to wear a wild fur coat.

The other factor is Corporate Average Fleet Economy (Cafe) – the official test fuel consumption averaged across all the cars made by a company in a given year.

Cafe targets have long been set (together with penalties for non-compliance) in the US. They are about to be increased, and they may also be adopted in Europe.

There are several engineering techniques available to improve fuel economy. The problem is that the most easily available have been exploited already.

Ever since the energy crises of the 1970s, cars have had more efficient engines, more gear ratios and better aerodynamics. The only thing left is weight reduction.

It has become increasingly clear that significant weight savings can only be achieved by abandoning current principles of car construction, and in particular the sheet steel body.

Today's car structures have already been ruthlessly optimised by computer analysis, yet cars are getting no lighter.

That is why so many leading car manufacturers are beginning to look very seriously at aluminium as an alternative to steel.

The alternative lightweight material, plastic composites, is very much "on hold" because of today's emphasis on easy recycling.

Audi, working in conjunction with Alcoa, has actually committed itself to part-aluminium construction for its next new model.

By reducing body structure weight by perhaps 30 per cent, aluminium opens the possibility of a benign spiral of weight saving.

A lighter body implies a smaller engine to achieve the same performance, driving through a lighter gearbox, with lighter brakes, and so on.

The only question is whether car designers will actually work in this direction and so achieve better economy, or whether they will be tempted to retain existing drivelines and turn the body weight saving into even better performance. The social pressure argument, and the looming threat of "European Cafe", suggests not.

Some designers also suggest that savings could be made by changing the shape of the executive car. Most of them have been surprised by the success of "one-box" designs such as the Renault Espace.

There is no doubt that executive cars designed along similar lines could offer as much space as existing models, and more comfort and convenience, in a more compact (but taller) shape.

The question is whether enough buyers would be prepared to abandon the trend towards ever longer, lower but essentially conventional-looking models.

It is at least possible, therefore, that the executive car of the future may look more different than it really is under the skin. It is certain, for example, that nothing is likely to replace the reciprocating internal combustion engine in the foreseeable future, although some engineers remain enthusiastic about the long-term prospects of a "hybrid" car with electric drive and a very small gas turbine to provide the power generation.

A pure electric executive car seems most unlikely; the electric-car quota soon to be demanded by US legislation is certain to be fulfilled by city-runabout designs.

Transmissions are also unlikely to see any drastic change. The majority of executive cars in 10 years' time are likely to have five-speed automatic transmissions, although their control systems will have become much more ingenious both in their ability to shift smoothly and to assess the driver's style of progress and adapt to it.

This is just one of the many ways in which electronics will make cars easier to drive and more comfortable.

Certainly, electronics will spread ever more from engine and transmission management, where it already holds such sway, into chassis engineering.

Development departments everywhere are looking at means of exploiting electronic control to achieve a smoother ride and more secure stability and handling.

Many such developments will depend on the ability of systems to tolerate faults without endangering safety, which is why engineers are concentrating so hard on failure analysis, duplicated systems and the most secure means of communication between different electronic modules.

This area of engineering interlinks with the other likely advance of the coming decade, into intelligent guidance systems to assist the driver and take an increasing share of the decision load.

Most big car companies can now demonstrate prototypes which are capable, for example, of automatically tracking lane markings and of maintaining a safe distance from the vehicle in front, enabling the car to be put "on autopilot".

Such systems can interface with "intelligent" roadside signs and other data transmitters, and potentially also with other vehicles, to provide automatic navigation. We are reaching the stage where such concepts, many of them developed under the pan-European Prometheus programme, are beginning to look really promising – so long as hardware prices can be contained and the necessary standardisation of systems achieved.

Prometheus is about safety as well as convenience. Because most accidents are in the final analysis the result of a driver being presented with one more decision factor than he was able to cope with, such "ergonomic unloading" should make travel by car much safer.

It is certain, in fact, that apart from being much lighter, slightly smaller and much more economical, the executive car of tomorrow will be far safer and easier to drive.

Jeffrey Daniels

Richard Feast on US makers' plans for exports

Only one way to go

AMERICA'S Big Three car makers are waking up to the idea of exporting to Europe once more. The sales numbers are still small, but their commitments mean there is only one way to go: up.

Several factors are behind the change, not the least of which is the decision by some *of Japan's North American car* transplants to start exporting.

If Honda and Mitsubishi can sell American-made cars in Japan and Europe, so can General Motors, Ford and Chrysler.

At the same time, tumbling American sales and the increasing share of the vehicle market taken by Japanese companies have left the Big Three with excess vehicle-building capacity.

Exports would help fill those production lines once again.

Underlying all this is America's huge imbalance in trade. *Sixty per cent of last year's* $66bn deficit was attributable to cars and components.

The Big Three recognise they *have to reduce the imbalance.* Chrysler, by far the smallest of the trio, is making the most progress. It sold 44,200 vehicles in Europe last year, way ahead of the 16,000 North American imports by General Motors and 13,000 by Ford.

In a market of 13.44m, they are hardly numbers which will concern sales leaders such as Volkswagen and Fiat. But US plans call for big sales increases of North American-made vehicles in Europe, and that represents a change of direction.

GM and Ford have always sold handfuls of transatlantic imports alongside the cars and trucks they make locally. They *never put much effort into pro*moting them because, historically, the policy was to build cars where they are sold.

That is still very much the case – and one being followed today by Japan's car makers as they establish manufacturing and design presences in Europe.

Ford's North American numbers were led by the Probe coupé, mainly in Germany as a rival to the VW Corrado and Opel Calibra. More recently, it started selling the Explorer four-wheel-drive sports-utility.

The company's primary purpose is to plug gaps in Ford of Europe's model line-up. Even so, it reckons it could triple *today's European sales to* 50,000 by the middle of the decade.

Certainly Ford's next export promises to be more significant. *It* is the replacement for the Probe, which goes on sale in America next month and in Germany later this year.

It will not arrive in Britain until next year, but it will have right hand drive.

But even Probe is not a pure Ford. It is based on the Mazda MX6 and is made in Michigan by Mazda, in which Ford is a 24 per cent shareholder. To *that extent, it could be catego*rised as an export by a Japanese transplant in North America.

General Motors makes no bones about European sales expectations for future North American models. Mr Richard Lee, the executive in charge of exports, recently said he wants them to reach 125,000 by the middle of the decade. The task *seems to devolve on Saturn* and a new generation minivan – the type of people-carrier which Renault popularised in Europe with the Espace.

Mr "Skip" LeFauve, president of GM's recently-formed Saturn division, has always maintained that exports must be a central part of the strategy. All that is missing so far is a date.

But it will be a brave development. Saturn is a range of medium-sized saloons, coupés and estate cars which would compete directly with GM's *established European brands,* Opel and Vauxhall.

In the main, the American companies are concentrating on model types that are not widely available in Europe, such as off-road sports-utilities and minivans.

GM's new minivan, due in 1995, is expected to be sold by GM's Vauxhall dealers in Britain and by Opel in main*land Europe. In this way, GM* will fill a neglected European market niche as well as its production lines in America.

American companies are concentrating on model types not widely available in Europe

Chrysler's European approach has had to be different. Forced to abandon the region in 1970 by bigger troubles back home, it sold its for*mer Rootes and Simca factories* in Britain, France and Spain to Peugeot. It was a transaction which turned the French group into *Europe's* market leader.

Chrysler may have been out of Europe for a decade but it was not idle. During the absence, it solved its financial problems, launched a vehicle which revolutionised the American market, and bought *American Motors – makers of* the world-famous Jeep – from Renault.

The new model was the minivan. Together with the similar vehicles which GM, Ford and the Japanese were forced to bring out, Chrysler's minivan has practically killed the estate car in America.

It has also become the cornerstone of Chrysler's manufacturing return to Europe. Mr Lee Iacocca, chairman, and Chancellor Franz Vranitzky of Austria were among the dignitaries who recently dedicated *the Graz factory which now* produces Voyagers.

The enterprise, known as Eurostar, is a 50-50 joint venture with Steyr-Daimler-Puch. It will be making 50,000 Voyagers a year by 1994-95.

Voyager and the Jeep ranges have spearheaded Chrysler's European sales drive.

America's sudden interest in exports is not confined to Europe. *It needs to sell more to* Japan – and that requires making right-hand-drive vehicles.

The country's car makers have until recently been reluctant to do so, although the picture is now changing. As it does, new market opportunities will open up in Britain, Australia and the many other countries around the world which drive on the left.

Chrysler has already engineered some current models for right hand drive, and says all future models will be. GM *and Ford are thinking* along the same lines.

Kenneth Gooding examines developments in leasing

Taking the hassle factor out of driving

It has taken 11 years, but the British government's determined effort to tax the company-provided executive car out of existance is now bearing fruit. Very many UK companies are now thinking about offering managers cash instead.

But, given that most executive cars are non-essential "perks" provided as part of a package to attract the most suitable candidates for senior management jobs, companies know they must tread warily.

While many companies would prefer to get out of the business of car provision entirely, they recognise they must offer alternatives which take the "hassle factor" out of personal car ownership.

This is where employee car easing schemes come in. These schemes aim to give individual employees access to the economies of scale in car purchase, maintenance and administration more typically associated with fleet operation rather than individual ownership.

So today, fleet managers are not just considering which method best suits their organisation when executive cars must be acquired, they are also having to deal with the complexities involved with "cash for cars" schemes or whether they should support personal leasing plans.

Mr Colin Grant-Wilson, managing director of Lease Plan, says that employee leasing, from the employee's point of view, is of particular relevance to people who have "perk" company cars, have relatively high-cost company cars and who have to pay higher rates of marginal taxation.

He suggests that personal leasing schemes would have been introduced very *quickly if the UK had elected a Labour* party government which then had implemented the personal tax changes promised before the recent general election. Because the Conservative party was re-elected, the immediate pressure for change has been eased slightly.

"Personal leasing will eventually be an important part of the company car scene. But it will take time. Not many companies are prepared to be pioneers," suggests Mr Grant-Wilson.

Those companies willing to push forward rapidly are offering support to leasing companies in various ways – such as deducting *from salaries the employee's* payment to the leasing company and acting as guarantor should an employee default on payments or leave the company.

However, the Inland Revenue has yet to decide whether such an agreement is sufficiently at arm's length from the employee and that the car is not a company car by another name and therefore liable to company car tax.

Because of grey areas such as this, Lease Plan is still some months away from finalising details of its own personal leasing schemes.

Mr Grant-Wilson says that, when they arrive, the new programmes will allow companies wishing to move from a com*pany car scheme to manage effectively the* transition to an employee leasing arrangement.

"In this way, continuity of benefit levels will be maintained and employers deciding to discontinue or reduce their company car schemes will have the assurance that their employees have a viable alternative which will not expose them to the full economic risk of operating an individual car. As with a company scheme, Lease Plan would underwrite the residual value and maintenance budgets and so provide fixed-cost motoring for the individual."

There will still be some drawbacks. For *example, leasing companies* will have to recover their higher administrative costs, associated with handling a large number of individual customers. Charges would also have to reflect the fact that individuals are usually not such good credit risks as corporations.

It is worth recalling that the "perk" cars era started because companies in the 1960s and 1970s were looking for other ways to reward employees because high personal taxes made simple pay increases relatively unattractive.

The government's counter-attack started in 1979 when it said it aimed to reduce the UK's personal tax rates but, to compensate, it also wanted to eliminate the provision of "perks" being handed out *in lieu of extra pay.*

The screw has now tightened to the extent that, according to Mr Tony Vernon-Harcourt of Monks Partnership, the remuneration advisers, 10 to 15 per cent of UK companies will probably cease to provide executive cars and give managers cash instead. These typically will be the financial institution with a small number of highly-paid staff who all do low annual mileages or US-owned companies who dislike the UK company car system on principle. Another 25 per cent of companies will include a cash alternative among the choices offered to senior people, he suggests.

There are other clear trends in the company car sector: the cars provided are generally getting smaller, companies are keeping them longer and there is a small but steady shift away from companies buying cars outright – still the most popular method of acquisition.

Mr Vernon-Harcourt suggests that this trend has probably been accelerated by the recession and the lack of availability of funds. With the banks reluctant to stump up new loans, companies are prefering to use the financial facilities available to them for other things apart from cars.

This year's budget again increased the amount of income tax which individuals *must pay for the benefit of using a com*pany car. The budget might also affect companies' acquisition policies because it raised from £8,000 to £12,000 the limit on the cost of cars above which capital allowances and tax relief for lease rental payments are restricted.

This makes contract purchase schemes relatively less attractive because these were developed in response to demands from customers wanting to avoid the £8,000 rental write-off restrictions.

Conversely, it should increase demand for contract hire because the entire contract hire rental on cars costing up to £12,000 – which covers the bulk of vehicles bought by fleets – can now be offset against pre-tax profits as an allowable business expense.

This important change does not really have an impact on executive cars which cost more than £12,000. The £8,000 limit was fixed in 1973 when that sum *would* have bought an executive car. To have kept pace with inflation the chancellor would have had to lift the limit to £22,000.

Contract purchase also continues to offer real benefits to those companies or organisations – such as banks and insurance companies – which have difficulty clawing back any VAT they pay. Under the terms of a contract purchase scheme, *companies avoid paying VAT on the pur*chasing component (but not on the service and maintenance element).

The primary disadvantage with contract purchase is that, as it has been developed from hire purchase, a deposit must be paid up front.

Some companies use lease purchase – another name for hire purchase – when acquiring company cars. This method enables the vehicle to be bought for a nominal sum at the end of the contract period. In contrast, with finance leasing, the leasing company is the legal owner of the car and must bear all the operating risks.

Also on offer as a method of acquisition is contract hire, which is a lease under which a contract hire company provides specific services in addition to finance and carries certain risks, mainly the risk associated with a car's residual value.

Fleet management contracts remove from the fleet user the administrative burden of running company cars and keeps costs under tight control.

But financing of cars is quite separate from their management – this might cause administration complications – and all the operating costs and residual value risks remain with the fleet user.

The car leasing companies so far have been carefully tailoring their contracts to suit the demands of their customers within the constraints of a changing tax system. Those customers have been corporations.

Now, like the company fleet manager, the leasing groups are having to re-think their position and consider how they might develop contracts to suit individuals as well.

☐ AGE OF THE DIESEL

Promising British market emerges

EXPECTED changes in company car taxation in the UK coupled generally with significant improvements in technology can open the way for diesel-powered cars to gain significantly in popularity in the executive car market.

The level of diesel car sales in different European countries is determined to a significant degree by government policy, particularly in the areas of fuel taxation, exhaust emissions policy and company car taxation.

In Britain, the government review of the company car taxation system should mean that the present system, which is based importantly on engine size – in particular with a break point at 2 litres – will be abandoned in favour of a system based on value.

Because diesel engines have a larger cubic capacity than equivalent petrol engines, the existing company car taxation system has discriminated in particular against diesel-powered executive cars with engines above 2 litres.

The review of company car taxation announced in the last UK budget was in line with the report of the Monopolies and Mergers Commission report on the car industry published in February.

The commission suggested that the system of banding the tax scale charges by original market value and engine capacity had caused a clustering of highly specific cars at particular tax band thresholds, in particular 2-litre cars at just under the £19,250 band.

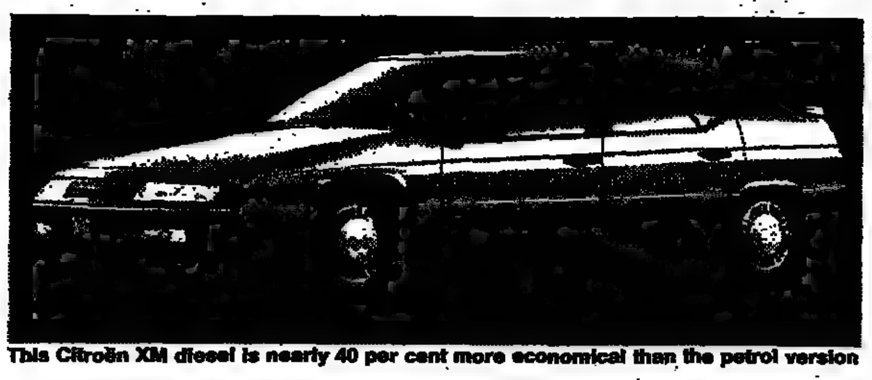
It recommended that banding should be replaced in favour of expressing the scale charge as a percentage of the car list price or cost. This would remove discrimination against those buying cheaper cars within the band.

Britain is already emerging as one of the most promising markets for diesel cars in Europe, although it has a long way to go to catch up the leading diesel countries such as France and Belgium. Demand for diesel cars has continued to rise in sharp contrast to the steep fall in overall UK new car sales, while the share captured by diesel engined cars has doubled in the past two years.

According to leading car producers, demand has been boosted by the introduction of a series of new diesel cars which can match the performance and refinement of equivalent petrol-engined models.

Significant progress has been achieved in both diesel engine and fuel technology, and these advances have been added to the traditional attractions of diesel cars, such as greater fuel economy – diesel cars use about 20 per cent less fuel than petrol-engined cars – higher second-hand values, and greater durability and reliability.

Diesel cars have also begun to make a significant break-through in the company car sector. Changes in fuel duty in the UK budget widened the favourable differential



This Citroën XM diesel is nearly 40 per cent more economical than the petrol version

between diesel and leaded petrol prices.

In the two years since 1989, sales of new diesel cars in Britain have risen by 13.3 per cent from 123,345 in 1989 to 139,810 last year. In the same period, overall new car sales plunged by 30.8 per cent from a record 2.3m in 1989 to only 1.59m last year.

Peugeot, the French car maker which includes Citroën, has made the biggest gains. With its combined Peugeot and Citroën marques, the French car maker accounted for 43.5 per cent of all diesel cars sold in Britain last year. It also supplies diesel engines to Rover, the British Aerospace subsidiary, for its Rover 200-400 series.

The Peugeot brand alone boosted its share of the diesel new car market to 31.2 per cent last year from 25.2 per cent in 1990 and accounted for three of the five best-selling diesel cars in the UK with its 405, 205 and 309 ranges.

The European market is dominated by France, where diesel cars accounted for 33.2 per cent of new car sales last year. But in Germany the diesel share was 12.1 per cent, while diesel cars accounted for 12.8 per cent of Spanish new car sales and for 10.9 per cent of the Dutch new car market. In contrast to other markets, diesel car sales in Italy have plunged in response to unfavourable tax changes. The diesel share of the Italian new car market fell to only 5.4 per cent from a peak of 26.1 per cent seven years ago.

Diesel prices vary greatly in Europe ranging from 27.5p per litre in Luxembourg – at May 1992 exchange rates – to 51.6p per litre in Italy. In France, diesel costs about 35.9p per litre, in Germany 36.4p, and in Britain 45.2p. Most importantly, however, the UK still has one of the smallest differentials between diesel and unleaded petrol prices at 0.9p per litre, compared with 16.2p in France and 11.8p in Germany.

As diesel technology improves, Toyota, the leading Japanese car maker, is presently testing a prototype V6 diesel engine with a difference; it is both a two-stroke and supercharged.

The advent of relatively high-speed production car diesels from manufacturers such as Peugeot and Volkswagen since the late 1970s has already helped to change the notion that diesels are necessarily slow, noisy and smelly in relation to their petrol counterparts.

Toyota's S-2 diesel engine, and similar units under development by rival manufacturers, takes the process a stage further. The combination of a relatively low compression ratio – about 16:1 – with supercharging eliminates the audible "knock" associated with "ordinary" diesels. The fact that there are twice as many firing strokes per engine revolution compared with an ordinary four-stroke car unit makes the engine at least as smooth as a petrol unit while at the same time bringing power up close to petrol levels.

The reason that Toyota is not rushing the engine into commercial production is largely a function of its inability, as yet, to coax exhaust emissions down to compliance with the tighter pollutions controls being introduced in the US and elsewhere from 1994 onwards.

Toyota is confident, however, that the problem will be overcome. The S-2 diesel produces about the same amount of hydrocarbons, carbon monoxide and particulates as a conventional diesel, but only about one third the oxides of nitrogen which are linked with acid rain.

The Peugeot group with its large executive-sector cars such as the Citroën XM has developed a 2.1-litre unit incorporating the world's first multi-valve aluminium cylinder head for a diesel, complemented by a turbocharger.

According to Peugeot, the XM so equipped is nearly 40 per cent more economical than the 2-litre petrol version. But both top speed and acceleration figures are virtually identical.

Kevin Done

☐ PRICES

Sir Leon cracks the whip

THE UK Monopolies and Mergers Commission and the European Commission have now both combed through the vexed issue of pan-European car prices. But the results of their endeavours appear to have done little to dispel the damaging confusion that still confronts car buyers throughout the Community.

When the MMC report was published in February, the UK motor industry breathed a sigh of relief. The Commission concluded that British new car prices were not unacceptably out of line with prices in other comparable EC markets.

Last month, the European Commission published its own report, however, and sent a new shock wave though the industry. Sir Leon Brittan, the EC competition commissioner, has adopted an altogether tougher and more rigorous stance than the MMC. Car makers are still trying to make up their minds as to how they should react to the trenchant demands from Brussels for greater price transparency.

They were much less troubled by the MMC report. After 18 months of deliberation and sifting through a mountain of evidence, the MMC concluded: "British consumers, particularly private motorists, do pay more for their cars than they should."

It also said: "A complex monopoly does exist in the case of 24 car suppliers;" and that "some of the restrictions applied by manufacturers to their exclusively franchised dealers do reduce competition and act against the public interest."

Yet the report concluded that neither car makers nor dealers had engaged in systematic profiteering and it recommended no significant structural changes in the way the industry operates. It also appeared to accept in their entirety the industry's arguments that Britain's franchised dealer system, with its dedicated service and repair facilities and after-sales support, was necessary because of the complexity of the products sold and their safety implications.

Several surveys in recent years by the Consumers Association and the Federation of European Consumer Associations (BEUC) have claimed that UK prices are substantially higher than those for comparable cars in some other EC countries.

The Commission concluded, however, that "a comparison of the price ranges in the United Kingdom with those in France and Germany, the two markets studied most similar to the UK in size and both with substantial indigenous manufacturing capacity, does not indicate a significant difference in general price levels."

This did not apply so closely to prices for smaller cars, however, where the MMC said that there were a number of model variants in France and Germany "whose adjusted prices appear on any of our assumptions to be considerably lower than those in the United Kingdom."

The MMC said that list price differences between Britain and other EC markets were, indeed, wide, but these narrowed considerably when they were adjusted for factors such as different levels of equipment specification, exchange rate fluctuations and availability of cheap finance.

Sir Leon Brittan, in sharp contrast to the MMC, has warned car makers that action is needed to reduce price differentials between different European markets. In a key letter last month to individual car manufacturers, he warned that the Commission had decided that "action is needed at once" both to monitor car prices more closely and to reduce differentials.

The controversial study prepared for the European Commission and published last month showed that there have been substantial price differences for some car models throughout the Community of more than 40 per cent in the most extreme cases.

According to the EC report, five car makers – Ford, Honda, Citroën, Mazda and Audi – had at least one model with price differences greater than 40 per cent in one of the five time periods selected for study between January 1988 and January 1991.

The study's findings have come under heavy attack from the motor industry, but in his letter Sir Leon has made clear that car makers must take steps to make their European pricing policies more transparent if they wish to retain the present selective car dealer distribution system in Europe.

Behind all the claims and counter-claims this is the real bone of contention. In 1985 the motor industry was granted a 10-year so-called block exemption from EC competition rules, which allowed it to maintain the present franchised dealer system – selective distribution. This system restricts sales of new cars exclusively to dealers chosen by the manufacturers.

Consumer groups, already critical of dealers and their service and repair performance, have called for the system to be replaced by a market "free-for-all", with manufacturers being obliged to supply cars to virtually any outlet which wishes to sell them.

In his letter to car makers last month, Sir Leon accepts that the EC car price study has not established "beyond doubt" the linkage between large car price differences across the Community and the selective distribution system.

Ominously for the car makers, he pointed out, however, that the study had made adjustments for the other most significant potential causes of the price differentials perceived by consumers.

He left little doubt in his letter that the pricing issue would play a vital role in the decision-making process, at least for the competition officials.

Sir Leon: altogether tougher and more rigorous stance

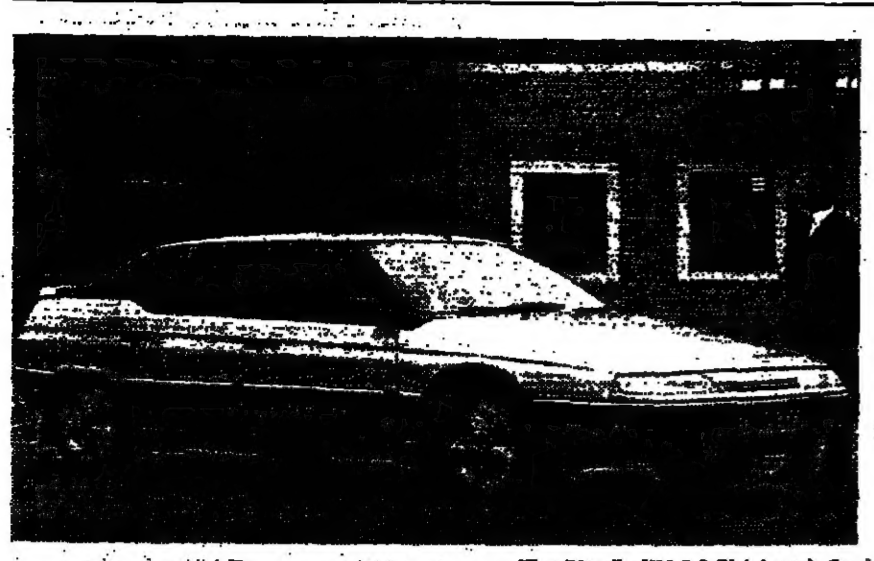
Sir Leon is calling on car makers:

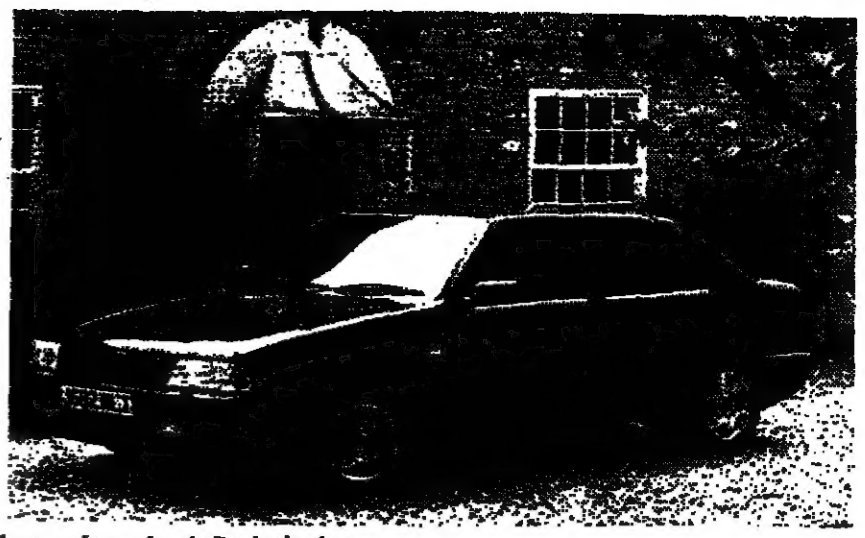
- To publish every three months one price list on an EC-wide basis for their entire product range. Prices should be quoted both in Ecus and in local currency, and should be set out in a way that "will enable consumers to make clear comparisons;"
- To make freely available every three months the prices recommended to authorised dealers for the manufacturer's five top-selling models in each market along with comparable prices for every other EC market [again in ECUs and local currency];
- To complete every six months an analysis of the prices recommended to dealers in each EC member state of "one standard, low-equipment model" in each market segment. The manufacturers are to ensure in this way that they are operating within the price bands allowed by the block exemption regulation.

In addition, Sir Leon has asked the car makers to write to their dealers in each market to assure them that they will supply cars ordered with specifications for another market (for example a right hand-drive car with UK specifications ordered in Belgium) "within a reasonable time period" and "at the same basic price" as for normal supplies of the comparable local model.

The industry is still to respond to these requests, but it has some way to go if it is to repair the credibility gap with Sir Leon and protect selective distribution.

Kevin Done





The Citroën XM 2.0 Si (above), Saab 9000 CS 2.0S (centre) and Fiat Croma 2.0ie SX: all have essentially the same chassis platform and are of a similar body size

☐ HOW THEY GO

Two litres is quite enough

Unless status means more than a combination of performance and reasonable economy, there is every incentive to go for a modern, high-efficiency 2-litre engine. Stuart Marshall assesses the latest range of vehicles and finds an embarrassment of choice

WHEN the price-only instead of price-plus-cubic capacity tax banding comes in later this year, business motorists will no longer have to choose between an under 2-litre car and a hefty financial penalty.

Even so, there will still be every incentive to settle for an under 2-litre unless the car is a diesel. These need a larger engine to give performance on a par with that of a petrol-powered car.

The fact of the matter is that unless status means more than a combination of performance and reasonable economy, a modern, high-efficiency 2-litre engine is quite big enough.

Two factors have been concentrating the car makers' and importers' minds: the 2-litre tax break and the recession

In the under-£19,250 category, there are some excellent four-and five-seat, 2-litre business class cars about.

They have the acceleration and the unusable maximum speed of 3-litre cars of a few years ago. When motorway cruising they are so refined it is hard to hear any engine noise over the swish of tyres and rustle of air.

Cars of this class are so good that choosing between makes and models has more to do with looks, equipment levels, service back-up, warranty terms and key-in-hand price than actual performance.

Two factors have been concentrating the car makers' and importers' minds. These were the 2-litre tax break – soon to be swept away – and the effects of the recession on sales. The makers' and importers' answer was to say never mind the engine size, get a load of the goodies – and the price.

There is an embarrassment of choice. Alfa-Romeo's new front-wheel driven 155 has just come to Britain with 1.8-litre and 2-litre engines as well as a 2.5-litre V6 after making an encouraging start in Italy. It is an agreeably sporty car of individual appearance.

Citroën's XM, with it semi-active, self-levelling gas-hydraulic suspension, rides like no other car. While not in the least quirky, it could never be mistaken for anything else. The new XM Premiere 2.0i has ABS brakes, alloy wheels, ultrasonic alarm and a stereo system with steering wheel controls yet it costs only £16,995.

Another £2,250 buys the 2.0i Prestige (£19,245) which also has automatic transmission, climate control and leather upholstery.

A similarly equipped, leather-trimmed, automatic version of the Fiat Croma 2.0ie SX – the only model now sold in Britain – is priced at less than £18,250.

Its two-pedal Lancia counterpart, powered by the same silken 16-valve engine with counter-rotating balance shafts, is £18,575.

These cars have essentially the same chassis platform and are of similar body size to the Saab 9000 CS and CD saloons which are among the best buys in class at less than £19,250. These solidly built, spacious cars have light-pressure turbocharging which, exploited discreetly, gives them the flexibility and pick-up of a 3-litre six with the fuel economy of a 2-litre *four*.

The Audi 80, recently relaunched with a boot as generous in size as the old model's was meagre, and the Audi 100 are available in seven versions under the £19,250 tax break although, sadly, none of the Quattros with four-wheel drive squeezes under the barrier. Like the Saabs, they combine passive safety – although the Audi Pro-Con Ten steering column-shortening and seat belt-tightening crash protection system is unique – with the kind of handling and roadholding to please the keenest driver.

Japanese named cars will have to be taken with increasing seriousness by user-chooser and fleet manager alike

BMW's super-smooth six-cylinder 2-litre engine can be had in both 3-Series and 5-Series four-door saloons for less than £19,250. *There is a joie de vivre* about these cars that few other makes can duplicate.

The comfort of the Ford Granada 2.0 LX's ride always impresses. This large hatchback or saloon is offered with automatic transmission for less than £19,250. Until the new Swindon-built 2-litre Honda, currently code-named Synchro, appears, the only Honda saloon in the under-£19,250 executive class is the Japan-sourced Accord.

Japanese named cars will have to be taken with increasing seriousness by user-chooser and fleet manager alike. At the moment, the only British-built, and thus generally fleet-acceptable, Nissan is the Primera. For mechanical refinement and build quality it has few if any class rivals and it is an extraordinarily well-balanced and pleasant car to drive.

Toyota's answer to the Primera is the new Carina E, launched in Britain with 1.6-litre and 2-litre engines in May. For the time being, the cars are being imported from Japan but in December production starts at Burnaston, Derbyshire. The Carina E will then be another genuinely British car even though it has a Japanese name.

Primera and Carina E both look and go remarkably like their Vauxhall Cavalier (Opel Vectra) equivalents, which still *set a European standard* among medium-sized, medium-priced, front wheel-driven cars. The latest Vauxhall Cavalier Diplomat, leather-trimmed, with heated seats and standard air conditioning, is a mini-Senator available for less than £19,250 with manual transmission.

Renault's admirable 25 *replacement, the Safrane,* is expected to sell in Britain for a similar figure with a 2-litre engine and automatic transmission when it arrives in early autumn.

Safrane majors on ride quality and silence.

The Mercedes-Benz 190E with 1.8-litre or 2-litre engines, now nearly 10 years old and *due soon for replacement,* is unmatched in its price class for status and sheer merit.

Its bank-vault build quality and conservative styling pay off in high retained values. The pleasure of driving one is to be equated with the feeling one gets when upgraded to first from business class.

The Peugeot 605 SLi 2.0, steel *sprung but otherwise similar* mechanically to a Citroën XM, is a roomy, quiet and undemanding drive. Rover's 820, restyled and improved within the past year, has build quality to match that of any European rival and is a driver's car which passengers enjoy equally.

Volvo's five-cylinder, front wheel-driven 850GLT is an outstanding newcomer. It may look rather like a mid-1980s rear drive Volvo, but everything about it is original – except, that is, the styling. Performance is lively, the ride is good, the handling supremely safe and, should the worst happen, its crash survivability is probably unmatched.

A feature of the past year has been the appearance on the market of some new estate cars that are viable and attractive alternatives to the company saloon for business use. Among them – all available for under £19,250 – are the Audi 100, BMW 5-Series Touring, Citroën XM and Ford Granada.

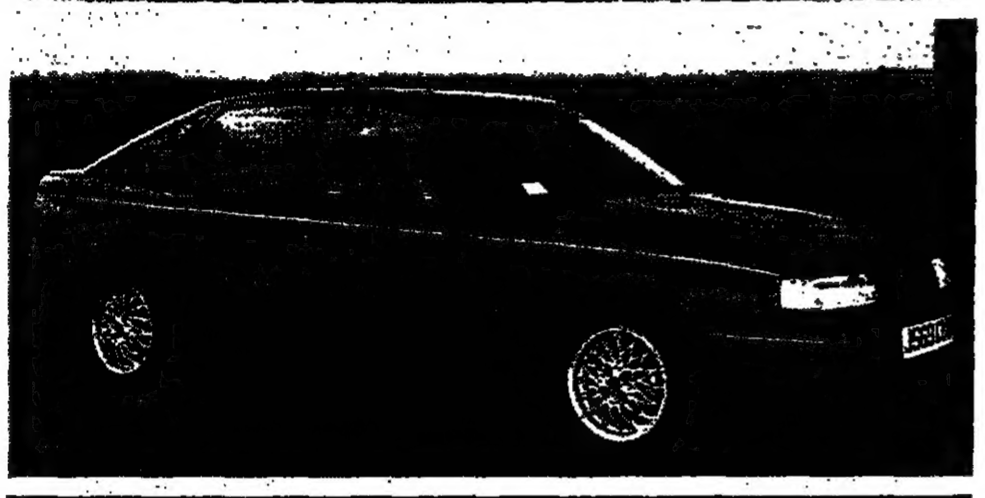
The old days when estate cars were noisier than saloons have long gone. In none of these would one know there was a massive load space instead of a boot unless one turned around in the driving seat.

Some business drivers reckon that if the company is going to give them the choice of any car costing less than £19,250 it might as well be exactly what they want and choose a recreational four-wheel drive.

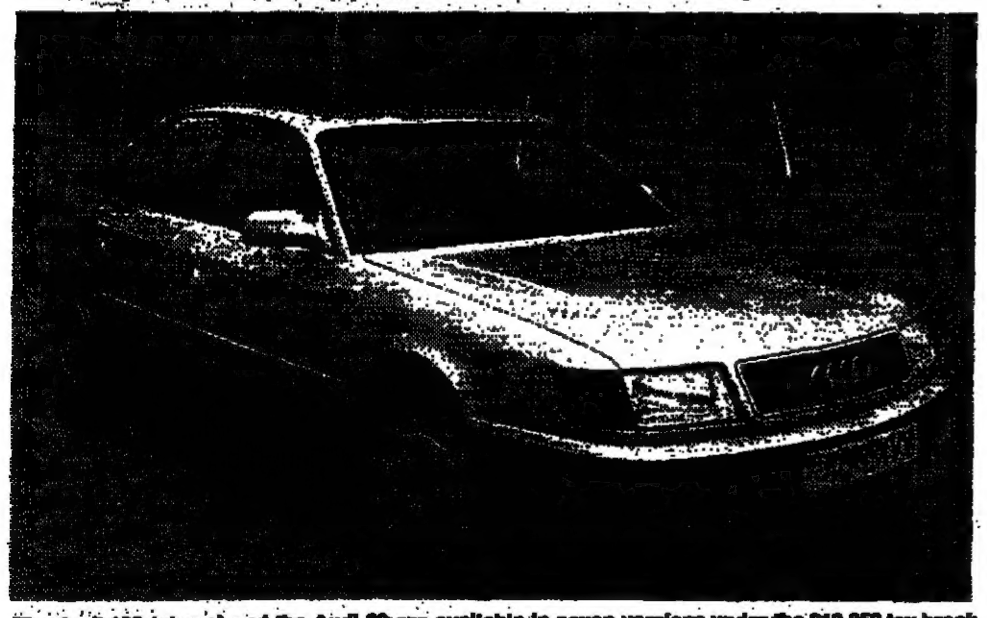
The three contenders are the Land Rover Discovery (from £18,021 for a 2.5-litre diesel) and the Japanese-made Mitsubishi Shogun (from £18,809) and Isuzu New Trooper (£15,149 upwards). Although designed and built to cope with off-road driving, most spend the majority – and many the whole – of their lives on tarmac.

They cannot match an executive car of similar price for fuel consumption or ride comfort and there is a certain lack of *finesse about their handling.* Having said that, there is something rather attractive about their high driving position which gives a commanding view of the road.

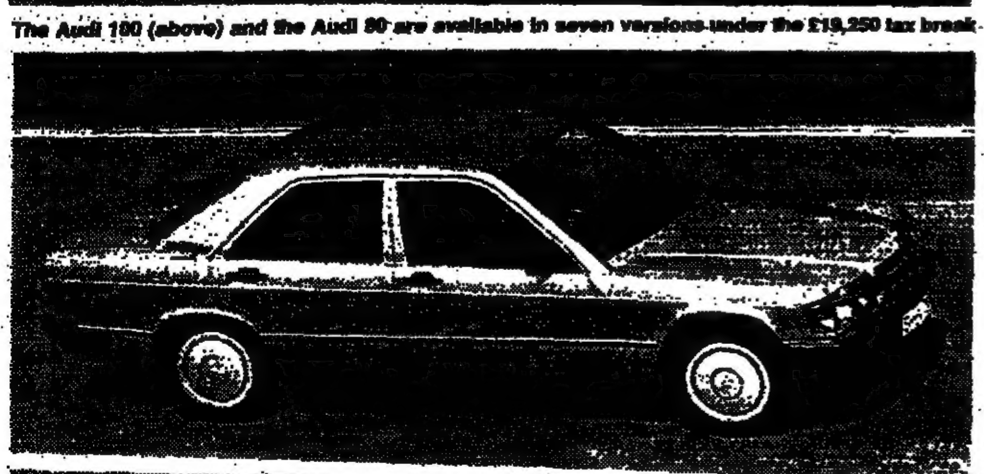
Any of them will cruise reasonably quietly at the sort of speeds which business drivers use. And, of course, at weekends they will tow two-horse (or one boat) trailers better than any other kind of car. Should the need arise to tackle mud, snow or flooded roads, they are in a class of their own.


The Nissan Primera 1.6 LX (top) – well-balanced and pleasant to drive, the Vauxhall Cavalier Diplomat (centre) – sets a European standard among medium-sized, front wheel-driven cars, and the Toyota Carina E (above): production is scheduled to start in Derbyshire in December

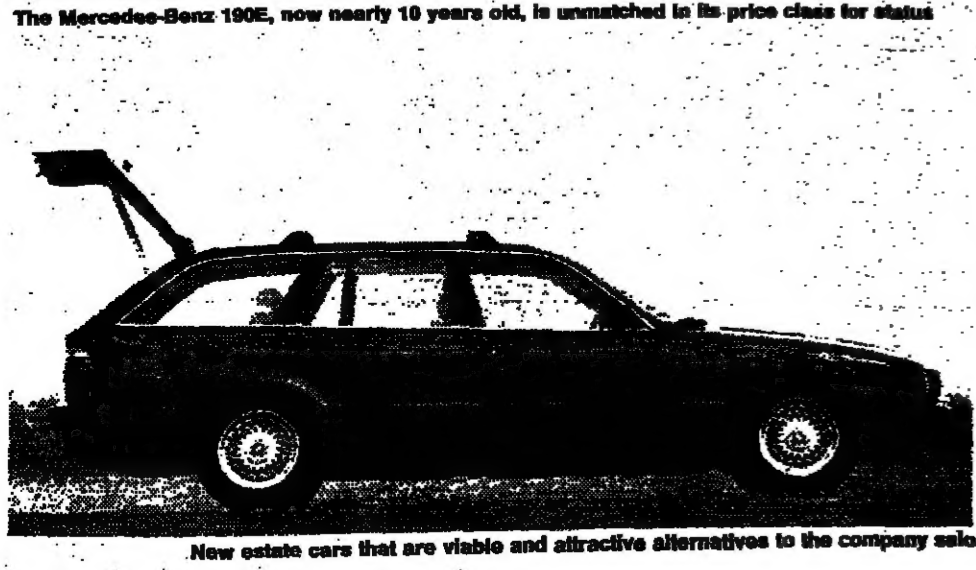
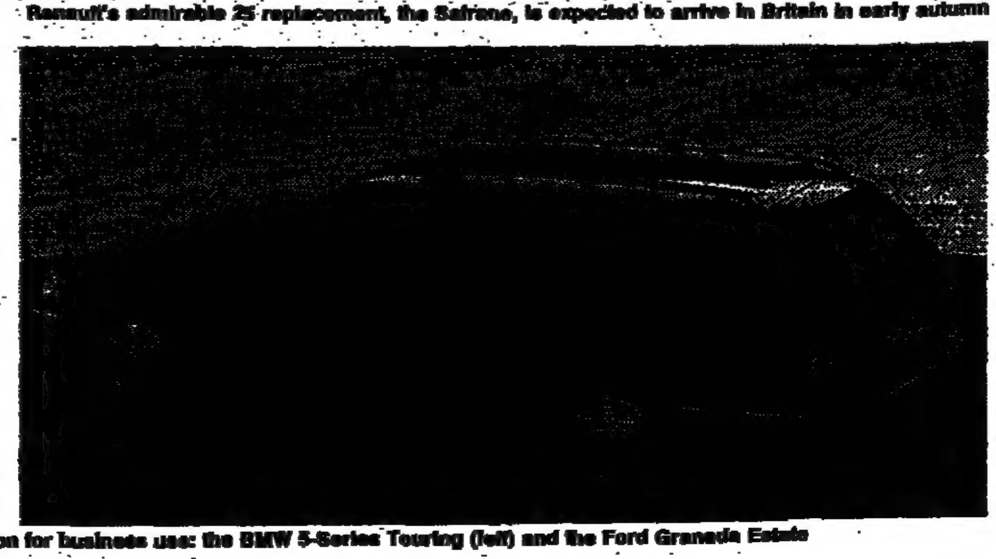


The Audi 100 (above) and the Audi 80 are available in seven versions under the £19,250 tax break



The Mercedes-Benz 190E, now nearly 10 years old, is unmatched in its price class for status

Renault's admirable 25 replacement, the Safrane, is expected to arrive in Britain in early autumn

New estate cars that are viable and attractive alternatives to the company saloon for business use: the BMW 5-Series Touring (left) and the Ford Granada Estate

EXECUTIVE CARS 12

Deliveries are to start within the next few days of by far the fastest and most expensive road-going Jaguar cars ever built.

Buyers from around the world are each paying £350,000 – enough to acquire 12 "ordinary" Jaguar saloons – for a limited production run of 350 examples of the XJ220, a mid-engined two-seater sports car capable of 212mph.

But environmental considerations mean that the big, 542 brake horsepower "supercars" are likely to be the last of their type – at least from Jaguar, according to JaguarSport, a 50-50 joint venture company set up in 1988 between Jaguar and Mr Tom Walkinshaw's racing organisation, which has developed and is making the cars.

The XJ220 is one of several 200mph-plus supercars, each costing up to £530,000, currently making their debuts.

Most were conceived towards the end of the economic boom of the late 1980s.

But their appearance coincides with widespread recession and almost exactly with the Earth Summit in Rio de Janeiro, with its concerns about the adverse impact on the environment of the motor vehicle.

"We all recognise that a long-term shift is taking place in what will appeal to buyers. No-one can afford to ignore the environmental issues", acknowledges Mr Bill Donnelly, sales and marketing director of JaguarSport.

For that reason, he suggests, the XJ220 will probably turn out to be the ultimate road-going Jaguar.

"We'll take a different slant in the future; something smaller and lighter, with the emphasis very much on weight-saving".

A further irony is that the new wave of supercars is rolling towards the market at a time when it is becoming increasingly likely that the last country in which their performance could be used to the full, Germany, will have its autobahns speed-restricted not by its own, but common EC legislation.

At Monte Carlo, McLaren Cars – a subsidiary of the grand prix racing group – has just given the motoring press its first glimpse of the F1, McLaren's own roadgoing, £530,000 "supercar".

Based on grand prix technology, it will go on sale next year.

Yamaha of Japan last month unveiled the OX99-11, a street-legal machine which uses a de-tuned version of its Formula One grand prix engine and which has room for only the driver.

Reflecting the unique status of the UK as the world centre for motor sport-based technology, the "Ox" will be produced not in Japan but Yamaha Motor's UK subsidiary, Ypsilon Technology, at Milton Keynes.

It is is also expected to cost more than £500,000.

The Bugatti name has been resurrected for a 200mph-plus supercar due to enter production later this year in Italy, rather than Bugatti's native France.

These cars eclipse in price and performance even vehicles such as Ferrari's F40, the Lamborghini Diablo and Porsche 959.

The question is, who will buy them? The answer from all their makers is that they are being snapped up by discreet, exceptionally wealthy entrepreneurial types scattered in small numbers around the world.

And unfortunate though the timing of the XJ220's launch is in many ways, Mr Donnelly insists that all 350 cars are pre-sold.

According to JaguarSport, 1,500 would-be owners have applied to buy the cars, backing their orders with the requisite £50,000, non-returnable deposit.

However, the market for used Ferrari and other classic sports car markets has suffered the most spectacular collapse in its history over the past two years. And there is increasing speculation within the investment car market about whether JaguarSport's confidence and that of other supercar makers may prove misplaced.

The order terms for the XJ220 allow holders to sell their options to another party.

Originally, this was seen as offering the potential for a premium. But the recession has meant that some would-be owners have needed to make a distress sale in an attempt to recoup the £50,000 – and to avoid payment of a second £50,000 tranche due under each contract six months before a car is delivered.

Worse, according to stories doing the rounds of the international "investment car" market, some would-be sellers have had difficulty disposing of their options.

Fearing that they might have to fulfil their contractual obligation to buy the car, at least some are said to have formed so-called shell companies into which to sell their options – and which it would be pointless for Jaguar to pursue for payment.

Jaguar and JaguarSport profess themselves to be relatively unperturbed.

The part payment system means that JaguarSport should get warning of potential problems at least six months before construction of that particular car is due to start.

"If there are problems, it simply won't get built – at least not until another firm buyer is found", said a Jaguar spokesman.

With an expected total world market for new cars this year of just under 40m, in percentage terms the XJ220 and its cohorts represent an almost infinitesimal proportion of the market.

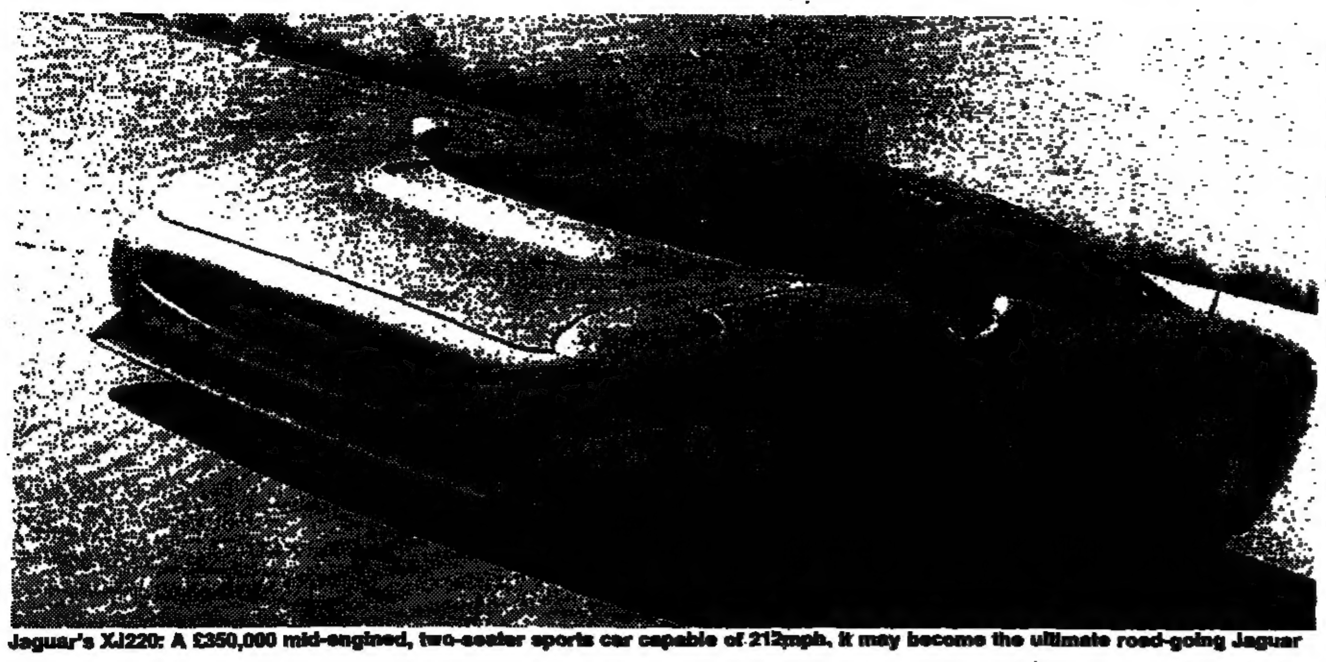
McLaren Cars plans to make only 300 of its extraordinary F1, a three-seater with the driver's seat in the middle and an array of mind-stretching technology including fan-assisted suction to stick it more firmly to the road.

Yamaha's production plans have yet to be disclosed, but total envisaged production also does not exceed a few hundred.

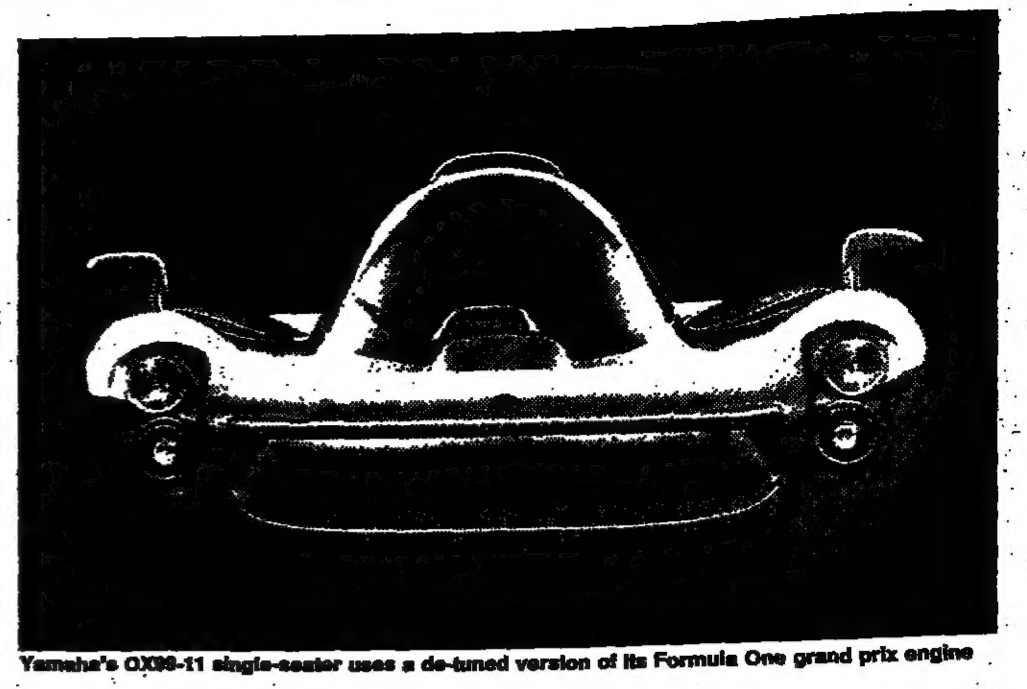
About 200 units a year are envisaged for the Bugatti EB110, a 200mph-plus supercar from an Italian-based reincarnation of Bugatti, perhaps France's most famous pre-war make.

By comparison, Ferrari is a common volume producer: it builds 4,000 cars a year – and even the most expensive Testarossa sells in the UK for a mere £130,000.

John Griffiths



Jaguar's XJ220: A £350,000 mid-engined, two-seater sports car capable of 212mph, it may become the ultimate road-going Jaguar



Yamaha's OX99-11 single-seater uses a de-tuned version of its Formula One grand prix engine

☐ THE SUPERCARS

Environmental issues may apply the brakes

☐ MINIVANS

People-carriers could even reshape the markets

Vehicle makers are betting that European buyers will like the people-carriers that are being planned for the next few years. Between them, they are laying down an extra 400,000 units a year to serve a market which, in the mid-1980s, amounted to only 35,000 units.

There will probably be customers for them. But it seems very bold to risk large sums on a niche which still accounts for less than 1 per cent of the overall market. Indeed, the phenomenon is so recent that the category does not yet have a universally accepted name. The Americans call them minivans. Most Europeans refer to them as people-carriers or multi-purpose vehicles (MPVs). In France, the Académie française pronounced that the correct title is monospace.

Whatever the vehicles are called, they are distinctive enough. They are the tall vans with three rows of seats and accommodation for seven. Their attraction for large families is obvious. But their appeal in the future may be so wide that it reshapes the company and executive car markets.

Europe's best known example is the Espace, built by Matra and sold by Renault. It captured almost half of all minivan sales last year. This amounted to about 46,000 units out of a western European total of 98,000, according to Ms Carol Thomas, manager of DRI/McGraw Hill's European light truck service.

More importantly, it is a highly profitable niche for Renault. Europe remains loose change compared with the performance of last year's minivan market in the US. More than 877,000 units were sold there, with Chrysler's contenders taking 45 per cent of the market.

Neither did the popularity of minivans in America go unnoticed by Japanese companies, which developed strong contenders for the business. It was a little too strong for Detroit's Big Three, which asked the US Commerce Department to investigate Japanese pricing policies. The result was the recent Commerce Department ruling that Toyota and Mazda are dumping minivans in the US.

The experiences could give Japan's car makers a flying start as Europe's minivan market starts take off.

Chrysler introduced America to the minivan a decade ago as part of its crucial restructuring. It is such a success that the company and the category are almost synonymous.

Now Chrysler is hoping to repeat the trick in Europe. Its Eurostar joint venture in Graz with Steyr-Daimler-Puch, the diversified Austrian engineering group, started assembling Voyager minivans last October. Production is slowly being built up. It will move to an annualised rate of 27,000 units in August, and double that by 1994-95.

"This plant can do 50,000, and 100,000 with ease," said Mr Lee Iacocca, Chrysler's chairman, at the plant's formal dedication in April.

It may have to if Chrysler wants to repeat its American market share in Europe. DRI/Mccraw-Hill's growth predictions for the European segment over the next five years see it moving from last year's total of just under 100,000 units to about 400,000. That would represent an 11-fold increase in little more than a decade – growth unmatched by any other significant sector of the car market.

Minivan sales are unlikely to reach the volumes they have in America, even though Europe's car market is larger. The reason, according to professor Garel Rhys of Cardiff Business School, is lack of space. "Often these products [in America] are the replacement of the fifth car," he says. "You can't even park one car in Fulham. Where do you put two or three?"

Prof Rhys, a motor industry economist, adds: "In Europe, we have a much higher population density. That's going to put a top on buying vehicles much sooner than you'll see in places like New Zealand, South Africa, Canada and the rest."

Ms Thomas believes many European minivans will increasingly be bought at the expense of large cars and estates. She thinks they have distinct image advantages over more utilitarian estate cars, such as lofty, Range Rover-style visibility and more futuristic styling.

Unquestionably, the size of the segment will be dictated by the arrival of all the new models planned for the next few years. Car makers will be in trouble if they don't find homes for all the vehicles they will then be capable of making.

The development will also spell the end of the Espace's current market domination, which leaves the Chrysler Voyager, Toyota Previa, Nissan Prairie and a few others mopping up the oddments.

As the Austrian Voyager factory gathers speed, Nissan's Motor Iberica unit in Barcelona will start making a model to be known as the Serena. Production begins this September, and will eventually reach 50,000 a year. With 80 per cent local content – including petrol engines from Nissan in Britain – it will not be subject to all the sales curbs imposed on cars imported from Japan.

There will then be a slight lull in European activity before two substantial joint ventures reach fruition in 1994, those between Peugeot and Fiat and Volkswagen and Ford. The intention in each case is to share design and development costs, but to market the products in competition.

Peugeot and Fiat are investing FFr5bn to bring their shared vehicle to market. It will be made at a rate of up to 120,000 a year in a new facility near Valenciennes, northern France.

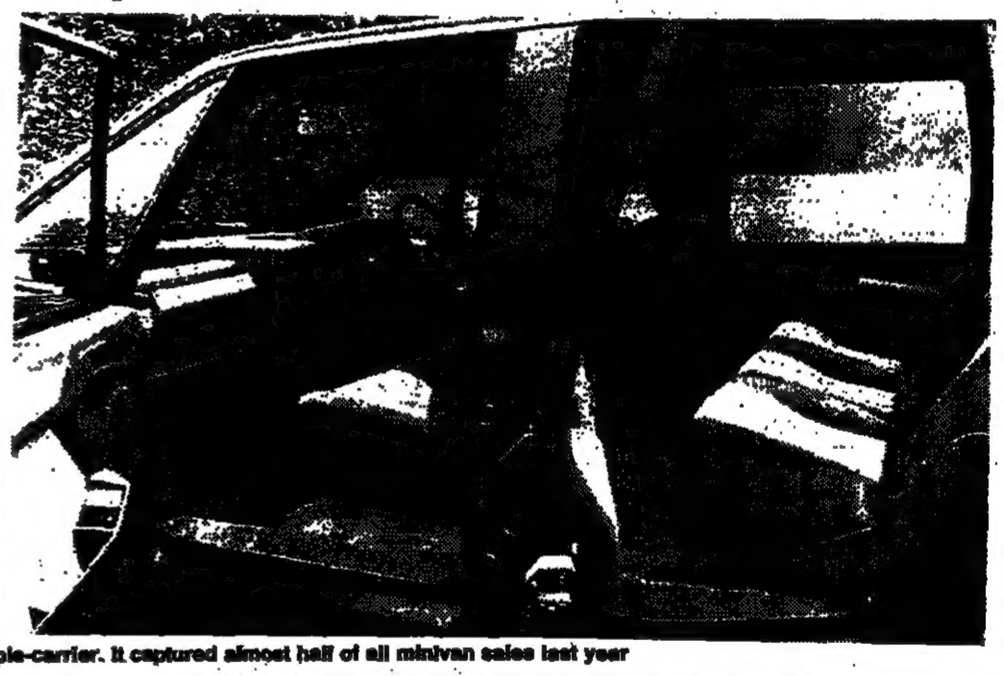
The $2.8bn VW/Ford collaboration is at a new factory being built in Setabul, Portugal. It will come on stream at the end of 1994, and will have an eventual annual capacity of 180,000.

All this activity would leave General Motors as the only main European maker without a competitor in the class.

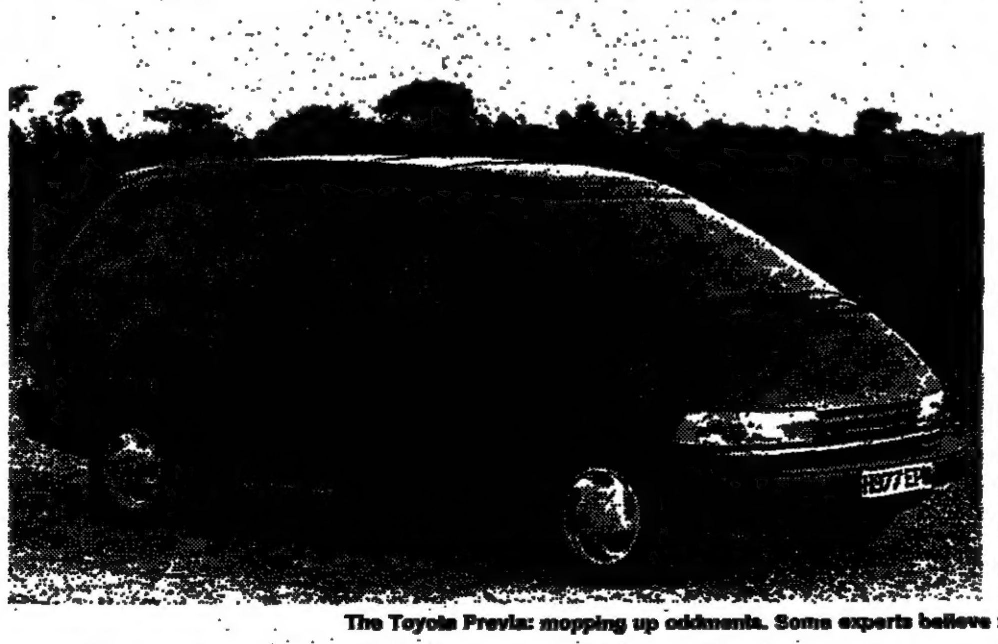
However, reports from Detroit suggest the corporation will plug the gap in its model line-up by having its European Opel and Vauxhall dealers sell a new, US-made minivan from 1995.

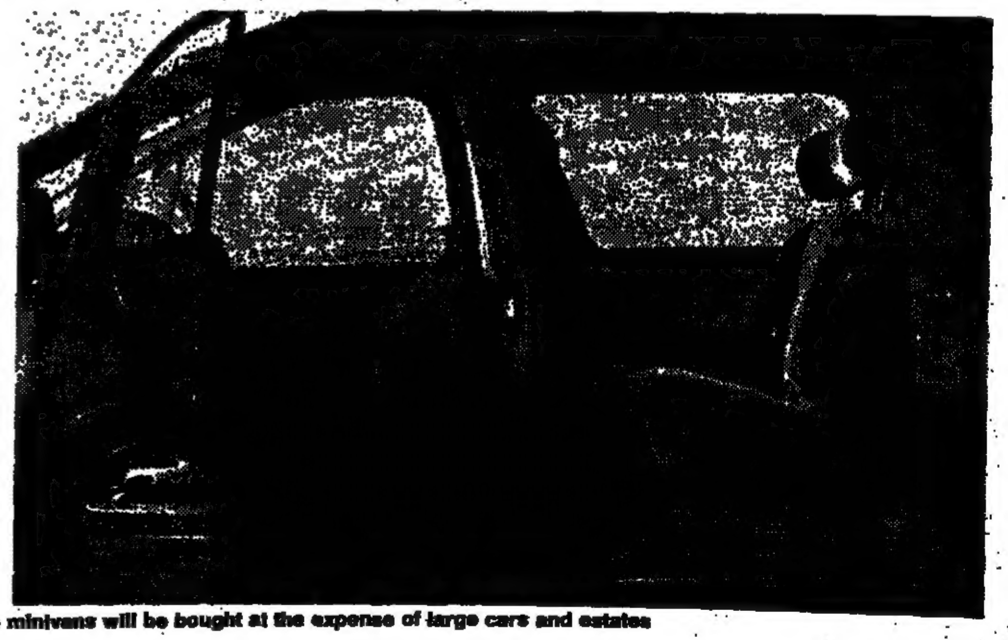
So far, none of the lower volume, upmarket companies has announced any production plans for minivans, though Mercedes-Benz exhibited a concept vehicle early last year. Volvo is in a good position to join the segment thanks to its steadily increasing ties with Renault, the category's market leader. Each company has stressed that all future models will start with shared chassis and drivelines.

Richard Feast

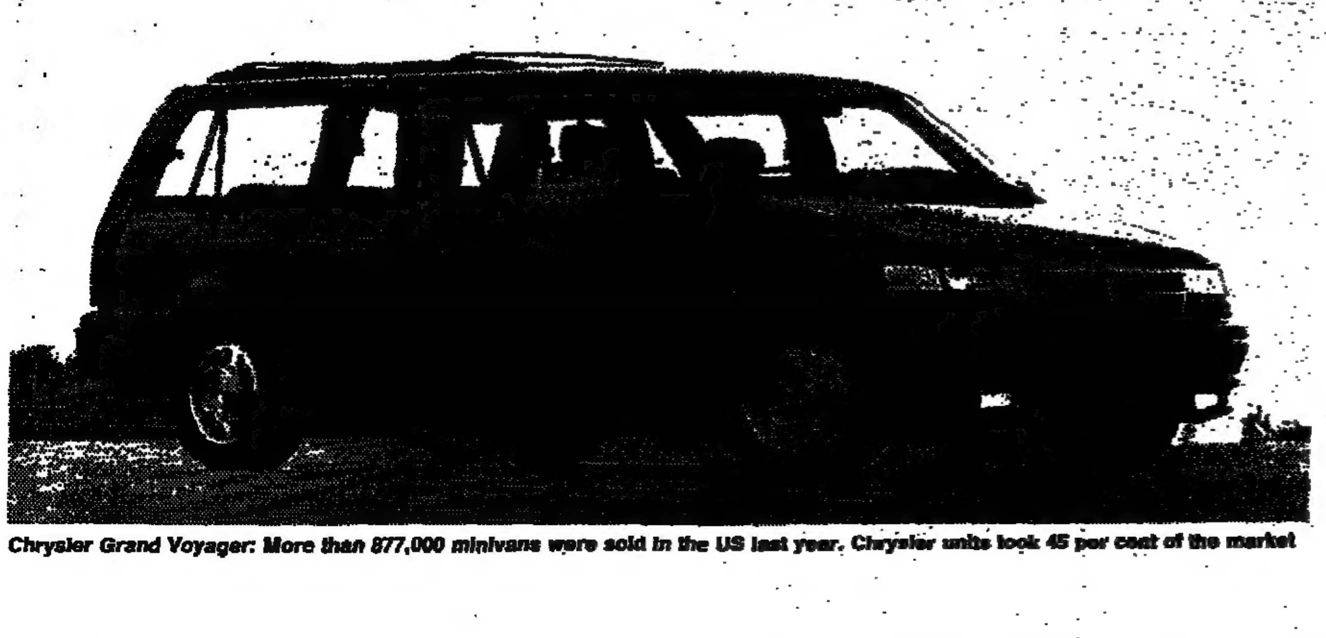


The Renault Espace: Europe's best-known example of the people-carrier. It captured almost half of all minivan sales last year

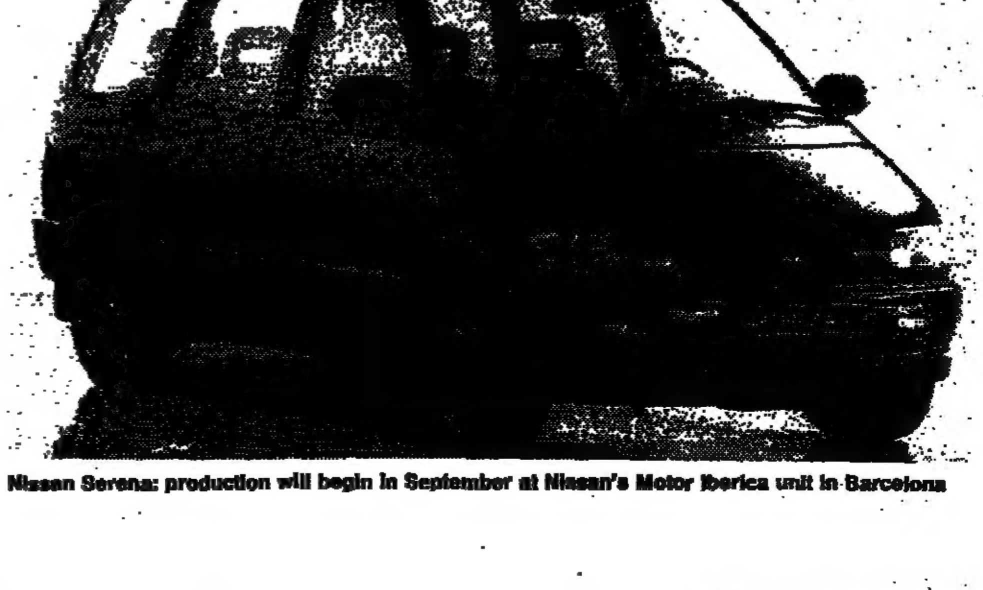




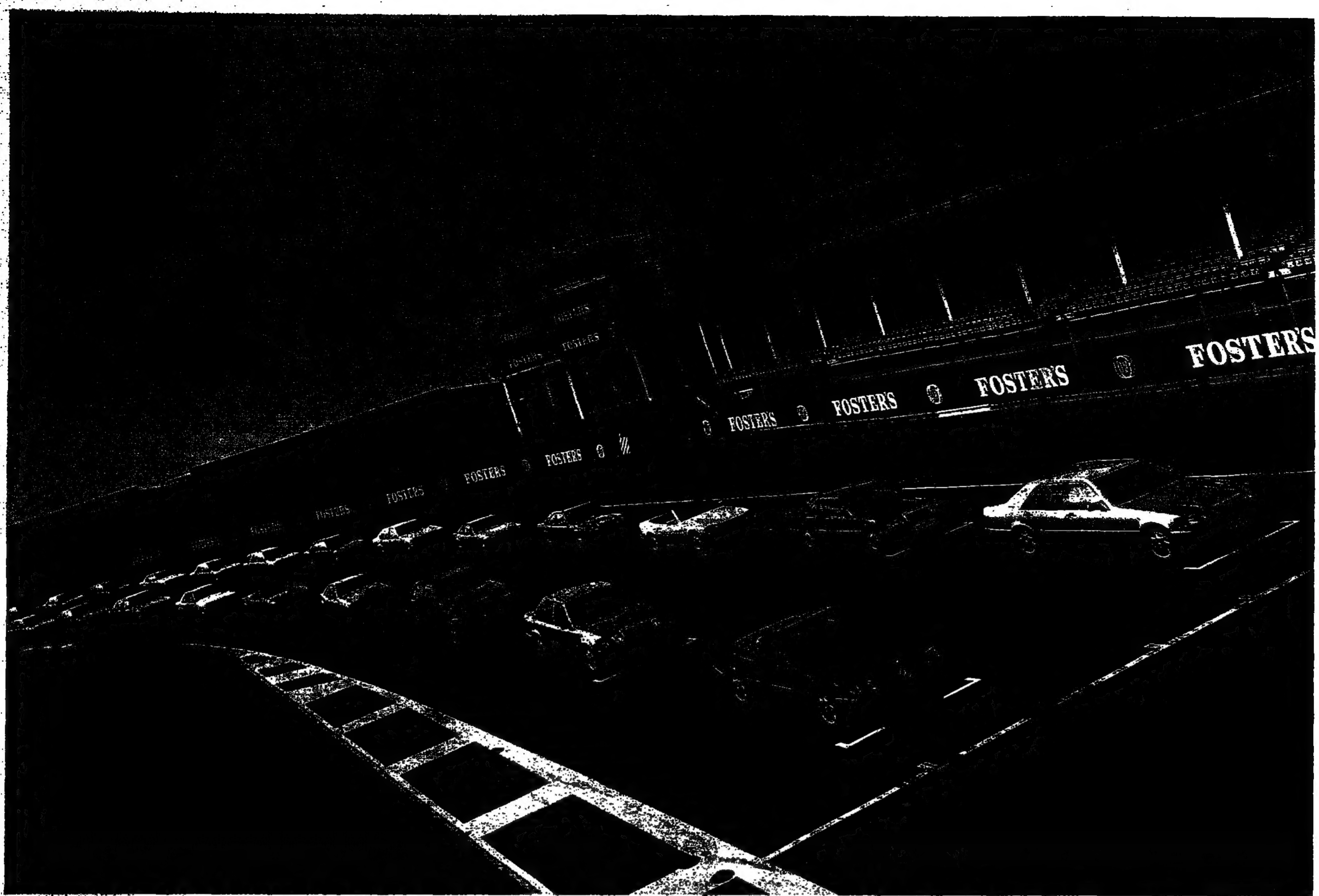
The Toyota Previa: mopping up oddments. Some experts believe minivans will be bought at the expense of large cars and estates



Chrysler Grand Voyager: More than 877,000 minivans were sold in the US last year. Chrysler units took 45 per cent of the market



Nissan Serena: production will begin in September at Nissan's Motor Iberica unit in Barcelona



If the 1992 Grand Prix drivers parked their Mercedes on the grid at Silverstone, this is what it would look like.

What do 27 of the 34 Grand Prix drivers drive on their day off?

A man who can balance a car on a knife-edge of adhesion through a 195mph curve tends to take more than a casual interest in the equipment he uses. Such a man is the modern Grand Prix driver.

He is a man who knows what makes a good car great. And more often than not, when he is not working, he chooses to drive a Mercedes-Benz.

THE CAR GRAND PRIX DRIVERS PAY TO DRIVE

It's a fact – over the years, Grand Prix drivers have made a habit of buying Mercedes cars. Of the 1991 crop of 34 drivers, 27 owned at least one Mercedes, a car they chose above all others to buy out of their own pockets.

The implication is clear. These men, the world's best and most demanding drivers, expect and demand the best in any car they drive – on or off the track.

From hard experience, Grand Prix drivers understand design integrity and in-depth build quality. Like no other drivers on earth they know what a rare achievement a superb suspension system is (either standard, or the more highly tuned Sportline option). Like no other drivers they understand great handling and road-holding. Like no other drivers they understand performance in its widest sense – the overall dynamic ability of a car. Most of all, they enjoy the indefinable pleasure of driving a great car.

AWAY FROM THE TRACK – A HAVEN OF PEACE

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The people who invented the car are still the masters of automotive engineering. And no one knows that better than the world's best drivers.

For more information about the cars, or the many finance packages available through Mercedes-Benz Finance Ltd (written quotations available on request), contact your local dealer. Or call 081-554 5000, or write to Dept 99/6, PO Box 151, London E15 2HF, detailing the Mercedes models that interest you.

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□ USER PROFILES: The US

Cars reflect austerity and recession

IF extravagance and ostentation were the catchwords of the booming 1980s, the 1990s have been heralded in by recession and austerity which is reflected in the cars many executives now drive.

With companies shoring up their balance sheets by cutting back on many perks, the days when almost every US executive had a company car already seem like a distant age. Indeed, many US executives are loathe to admit that they even drive luxury cars, even when they have purchased their cars themselves.

According to a partner at a global investment bank who did not wish to be named, "Executives are as interested in being comfortable as ever, but they want to be less obtrusive about it. This is an age of subtlety; there are fewer turbo-charged cars and fewer Bentleys."

His sentiments were echoed by Mr Mark Spiegel, a principal at Major Development, a commercial real estate brokerage company. "In the 1990s, ostentation is allegedly out and people are buying cars like the Lexus because they don't want to be seen driving a Mercedes."

The bank executive, a self-described car buff, owns several collectors' cars and high performance cars but drives a 1991 Lexus LS400 as his basic transportation car.

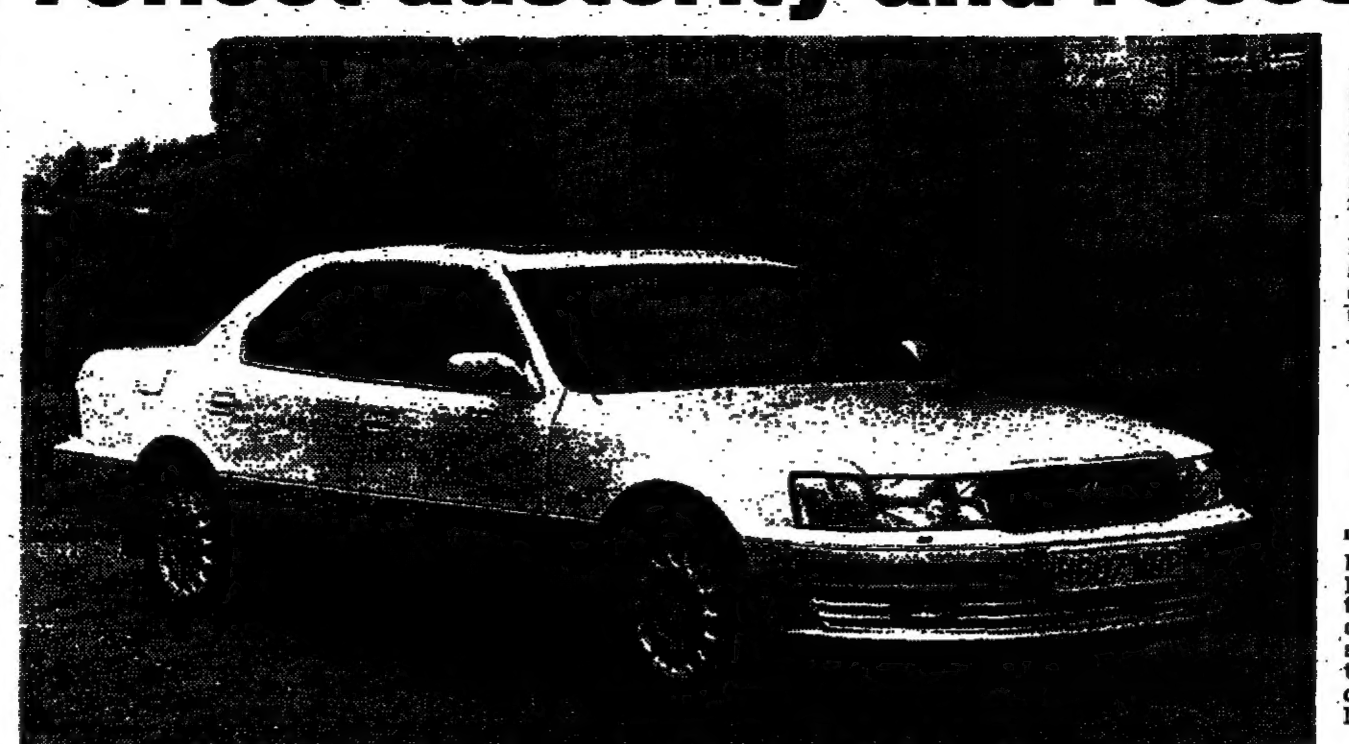
"When I bought it, I comparison shopped between BMWs, Mercedes, Lexus and Infiniti. The Lexus was far and away, in my judgment, the best combination of aesthetics, performance and value for the money."

In spite of the recent resurgence of more nationalistic sentiments in the US and a concerted push by unions and the auto industry to get more Americans to buy American products, most executives tend to pay more attention to the car itself than to the maker's nationality when spending money on a luxury car.

The value associated with the relatively new Japanese cars has made them increasingly appealing to US executives

American cars have improved immensely in the past few years and cars such as the Taurus have become competitive on the world scene. "But the quality of Japanese cars is up even more," according to Mr Spiegel.

The value associated with the relatively new Japanese cars has made them increasingly appealing to US executives looking for a new luxury car. "The Lexus and Infiniti offer 90 per cent of what Mercedes offers for about 60 per cent of the money," says Mr Spiegel.



Lexus LS400: "In the 1990s, ostentation is allegedly out and people are buying cars like the Lexus," says one property broker

The after-purchase maintenance programme is another attractive feature of the Lexus. "I have almost 30,000 miles on my Lexus and it has cost me nothing in terms of maintenance," the bank executive said. "And when it has a scheduled maintenance, they pick it up, service it, wash it and return it to my garage. And in the interim they leave me a loan car while mine is being serviced."

"It's been free, it's been 100 per cent reliable and 100 per cent convenient; and it was probably 50 per cent cheaper than the comparable Mercedes. It's extraordinarily good and has no down-side as a basic form of transportation."

Mr Spiegel, who drives a Porsche 911 and a Taurus SHO, the high performance version of the Ford Taurus, was less willing to give up performance for comfort.

"I look at performance, totally," he said. "Acceleration, steering feel, handling and braking ability are all important. But I'd say 90 per cent of the people who get in my Porsche would choose a more comfortable car for the money."

The average 55mph speed limit in the US makes high speeds less of a factor when choosing a performance car than it would be in many European countries. "Top speed is pretty impractical, at least in the US," says Mr Spiegel. "You can get short bursts on some stretches of open highway, but that's about all, otherwise you can say goodbye to your licence."

Later models of the car are even more attractive, with better transmissions, anti-lock brakes and air-bags

According to Mr Spiegel, who races his Porsche, one the car's main advantages is that it is one of the very few cars in the world you can drive to work every day but can also drive on the race track. "The brakes don't fade and the steering is phenomenal on the track."

One of Mr Spiegel's main concerns is that his car should not look too expensive.

"Anti-theft systems have become so good in cars that the only way for someone to steal some of these cars is at gunpoint.

"There is nothing about the Porsche I'd avoid, but if I could change anything I would try to make it less conspicuous so I could park it in the street instead of a garage."

On his 1989 Taurus, Mr Spiegel would make the brakes larger. "But when you look at the money, it's a phenomenal car in terms of what it does."

Later models of the car are even more attractive, with better transmissions, anti-lock brakes and air-bags.

Indeed, executives looking at buying new luxury cars now demand a number of high-tech features which were unheard of only a few years ago including air-bags, anti-lock braking, emission control with acceptable fuel economy and up-to-date tyre technology.

The Lexus driver also appreciates the less essential features – namely a 16-speaker stereo, leather seats and the telephone – which come with the car. "It has all the toys built in," he said.

Mileage still seems to be one of the less important concerns when choosing a car in the US, in part because drivers are still comparing the miles-per-gallon in modern cars to the leviathans of only a few years ago which averaged about 10mpg.

Karen Zagor

□ USER PROFILES: JAPAN

Luxury sector has gained importance rapidly

THE NATION that leads the world in providing innovative, high-quality cars for the common man is beginning to nurture the sort of executive luxury car market at home that for decades has been the mainstay of companies such as Jaguar and Mercedes-Benz in Europe, and Cadillac in north America.

Rather than big business, it is the movers and shakers of small and mid-sized companies situated in the nation's leading metropolitan areas who increasingly are expressing themselves through luxury cars, industry executives say.

At the top end of the market little has changed in decades and style still takes a back seat to status

"This market is beginning to take off," says Mr Hiroo Watanabe, managing director of Honda's Wako research and development centre, but he admits that Japanese luxury cars still have to develop a distinct identity.

So far, relatively small luxury models have witnessed the strongest sales growth, with the typical executive buyer owning his own business and interested in a self-driven car for work and play, Mr Watanabe says.

Such customers are enticed into the luxury market by the significant tax advantages of owning a car through a company, he adds. A tax change implemented two years ago under heavy pressure from foreign car makers dramatically lowered levies on so-called three-number vehicles (those with 2,000cc and larger engines) and is also propelling sales.

Sales of cars with 2,000cc and larger engines increased each month in 1991 for a total annual gain of 42 per cent to 724,406 vehicles, marking the sector's sixth consecutive year of double-digit growth. That contrasted with overall declines of 4.5 per cent in total domestic passenger car sales and 1.8 per cent in production.

Indeed, the luxury sector has gained importance rapidly over the past few years and in 1991 accounted for 9.8 per cent of the domestic passenger car market, compared with 2.3 per cent three years earlier, according to the Japan Automobile Manufacturers Association (JAMA).

Toyota was the 1991 luxury market leader with a 44.8 per cent share, while Nissan came in a distant second at 21.6 per cent.

Honda's line-up of relatively small luxury cars put in a strong showing with a 230 per cent sales gain to 52,166 units, or 7.2 per cent of the luxury market.

The combination of pizzazz and practicality displayed by many of these cars contrasts sharply with the top end of the executive car market, where little has changed in decades, and style still takes a back seat to status.

Deflation of Japan's so-called bubble economy sparked a 2 per cent decline in 1991 import sales

Despite US President George Bush's hard-sell for American car makers earlier this year and the high-profile delivery of a General Motors Cadillac (with the steering wheel on the wrong side) to Chief Cabinet Secretary Mr Koichi Kato this month, the boxy Toyota Century and Nissan President still overwhelmingly line the traffic corridors of power, where chauffeurs work away with feather dusters on their already gleaming black exteriors.

"Most executives don't have a say in the car. 'This is the company car and you get to ride in the back of it,'" is how Baring Securities (Japan) auto analyst, Mr Neal Doyling, describes the Japanese attitude toward company fleets.

"If you look at what are considered corporate cars in Japan, the old Toyota Century and Nissan President, you would not consider them attractive," he adds. "But if you ride around in the back of one that means you have arrived. In the US it (the company car) is more of personal statement."

Imported luxury cars have been among the most favoured forms of auto expression in recent years, with Mercedes-Benz and BMW leading the way and foreign makers together accounting for the third largest share of the luxury market.

However, deflation of Japan's so-called bubble economy sparked a 2 per cent decline in 1991 import sales and a more worrisome plunge in luxury market share to 14.7 per cent from 21.3 per cent the previous year, when there were roughly 1m imported passenger cars plying Japanese roads.

The Japan Automobile Importers Association is still counting on the popularity of these high value added vehicles eventually to help it win away 10 per cent of the Japanese car market, compared with 4.9 per cent last year but it expects sales to pick up only modestly in 1992.

The sole bright spot in the import market involved America's 5.3 per cent increase in exports to Japan to 30,128 units – roughly what Japan exported to the US every 5.2 days.

While individual car companies are understandably reluctant to detail their luxury car customers, the Japan Automobile Importers' Association released a study last year outlining trends consistent with industry executives' comments about the luxury car market as a whole.

The study shows the average age and income of imported car buyers has been declining as such vehicles become more affordable. The largest group comprised buyers 25-39 years old, while 57 per cent were salaried workers in the 1988-1990 period studied.

Meanwhile, the ratio of independent enterprise owners and freelances fell sharply to less than one quarter since the previous study of buyers in the 1985-87 period, the association said.

Another notable feature of the import market was an increase in average car size to the 2,000cc class. Cost-performance considerations also increased, while buyers cited external appearance, and safety as leading priorities in selecting a vehicle.

Neil Weinberg

A Daimler limousine with a prototype mobile office equipped with a computer and other equipment for the executive

Peter Purton reports on in-car communications

Mobile office still awaited

EFFECTIVE management is all about marshalling facts quickly, easily and accurately and about using them to make strong and reasoned decisions.

Over the past few years, most large organisations have constructed computer-based information systems which ensure that managers get these facts delivered to their desks. But what happens when they are away from the office?

The answer for the most part today is that they do not receive the same level of support. And for managers who spend a lot of time out and about this can be a severe handicap.

Comet, the electrical retailing group, is one of the first companies to address the issue.

It recently signed a deal with computer maker Zenith for high-performance 386 notebook personal computers each equipped with an internal modem. The object of the exercise is to equip the company's field managers with the means to find out key performance information about the branches for which they are responsible from wherever they may be.

"We never had any problems with the management information available to us in the office, but that information was not getting to managers in the field," explains Mr Tim Walker, manager of Comet's information centre.

"The laptops give our managers direct access to our mainframe computer. They can check stocking levels, sales performance, budget targets, credit turnover, etc. They can then use the information to either tell a store they are visiting that day to buck up and do better or to congratulate them on their success."

The first phase of the project still uses ordinary fixed telephones as the communications medium.

"Our managers can usually find a handy telephone socket," says Mr Walker. "We wanted to get something in as quickly as possible and we decided that the ordinary telephone network was more stable."

The cost premium of mobile telephones was also considered too much. "What we have now does 90 per cent of what we are looking for, and at quite a reasonable cost. If we wanted to add mobile communications it would have multiplied the costs," says Mr Walker.

Despite the undoubted success of the cellular telephone, one area of mobile communications which has consistently been a disappointment has been that of data transmission. The mobile office, where the car is equipped not only with a mobile telephone but also a fax machine and a networked personal computer, despite many promises, has never materialised.

In the US, fewer than 100,000 of the country's 8m mobile telephone users transmit data via their cellular lines

Not long after the launch of cellular telephones in the UK, representatives from both network operators, Cellnet and Vodafone, were predicting that data would soon account for a significant part of their traffic.

It was suggested that as many as 5 per cent of cellular users would use their mobile telephones to send and receive data. In the US, too, expectations of cellular as a medium for data communications were high.

But in both countries the actual results have been disappointing. In the US, fewer than 100,000 of the country's 8m mobile telephone users transmit data via their cellular lines.

In Britain, the number of cellular telephone owners using the mobile telephone systems for data is even lower.

"The problem with today's data communications via cellular networks is the time it takes to set up a link," explains Mr David Proctor, British Telecom's general manager responsible for cellular radio.

Cellular radio networks are organised for voice communications, where a conversation can last minutes or even tens of minutes. In many common data communications applications, all the communicating is done in seconds, sometimes just fractions of a second, says Mr Proctor.

"It can take 15 seconds to set up a link and just a few thousandths of a second to transmit and receive the information: that just doesn't make sense," he says.

Few doubt, however, that there is a demand for mobile data solutions. For field service people, it could provide a valuable link into the office's extensive technical resources, improving productivity. For sales, it could provide a significant boost to competitiveness. And for many managers and professionals, it could allow them to work where before they would have been forced to be idle.

In recognition of this as-yet largely unsatisfied demand, and conventional cellular's shortcomings, a number of dedicated radio networks are being planned or built which will be capable of supporting data communications. In Britain, Dowty and Hutchison have launched mobile data services and Ram is planning to do so.

Dowty's Cognito service was launched last August and now claims some 1,000 users. Ram also has a similar number of users including British Airways on a trial basis but is not expecting to launch its system officially until the end of this year. Hutchison officially launched its system last month.

Even cellular looks like it may be given a new lease of life as a wireless data communications medium.

In May, computer giant IBM joined nine of the leading US cellular network operators to develop a data communications service which exploits the idle moments of airtime between voice conversations.

The group believes data rates of up to 19,200 bits of information a second can be achieved: on a par with the best fixed network dial-up modems.

The new pan-European mobile telephone system, GSM, also promises to improve significantly mobile data facilities via cellular because of its shorter call set-up times, high data transmission rates and digital format.

Terminals especially designed to take advantage of mobile data communications are now becoming available. Last year, US computer manufacturers IBM and NCR and Japanese electronics giant Canon all introduced laptop computers with built-in radio data communications facilities, for example.

It is understandable if users have become more sceptical about any new claims made by the industry

With so many of the previous promises of the mobile office coming to nothing, however, it is understandable if users have become more sceptical about any new claims made by the industry. It may even be in the industry's interest to allow users to sort out their applications first, then start looking for technologies which will allow them to best implement those applications.

"Mobile data has always been treated as a product sale when it should be seen as an applications-driven sale," says Mr Proctor. "There are lots of opportunities (for industry) but I think we've got to start with the application and work backwards."

Mr Walker agrees. "Right now we want to concentrate on things like the breadth of information available and the variety of people using it. Then we may start to look at making the system fully mobile. But that won't be for some time yet," he says.